



**Brandywine Global Investment Management, LLC**  
2929 Arch Street, 8th Floor / Philadelphia, PA 19104

North America 800 348 2499 / 215 609 3500  
Asia 65 6536 6213  
Europe 44 (0) 207 786 6360

**brandywineglobal.com**

*April 25, 2011*

**Presented by**

**Jack P. McIntyre, CFA**

Portfolio Manager, Global Fixed Income

## Why Global Bonds?

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# Portfolio Goals for Global Fixed Income Investing

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- **Enhance Returns**

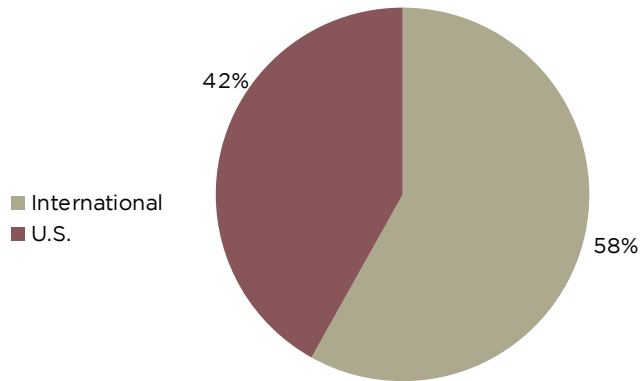
- Pick-up additional “opportunistic yield”
- Positive currency returns (growing influence)
- Spread contraction (credit returns)

- **Reduce Risk**

- Portfolio diversification
- Lower interest rate risk exposure

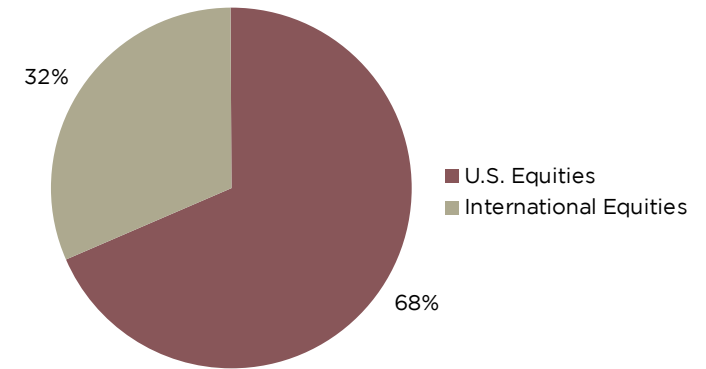
# Investors Are More Diversified In Equities Than Bonds

World Equity Market Capitalization (\$33.7 trillion)



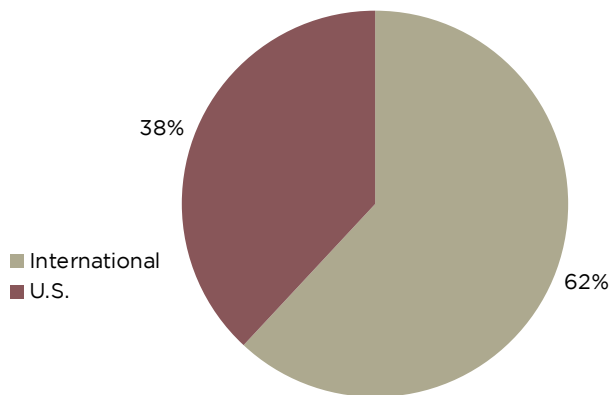
Source: Legg Mason – Bonds Without Borders

Average Institutional Equity Allocation



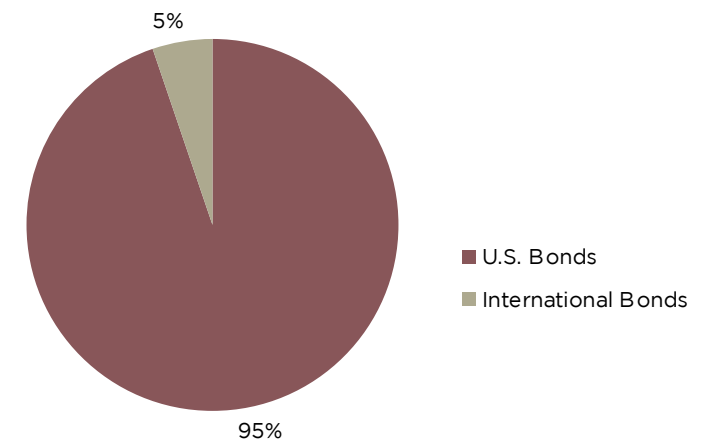
Source: Greenwich Associates

World Bond Market Capitalization (\$62.7 trillion)



Source: Legg Mason – Bonds Without Borders

Average Institutional Bond Allocation



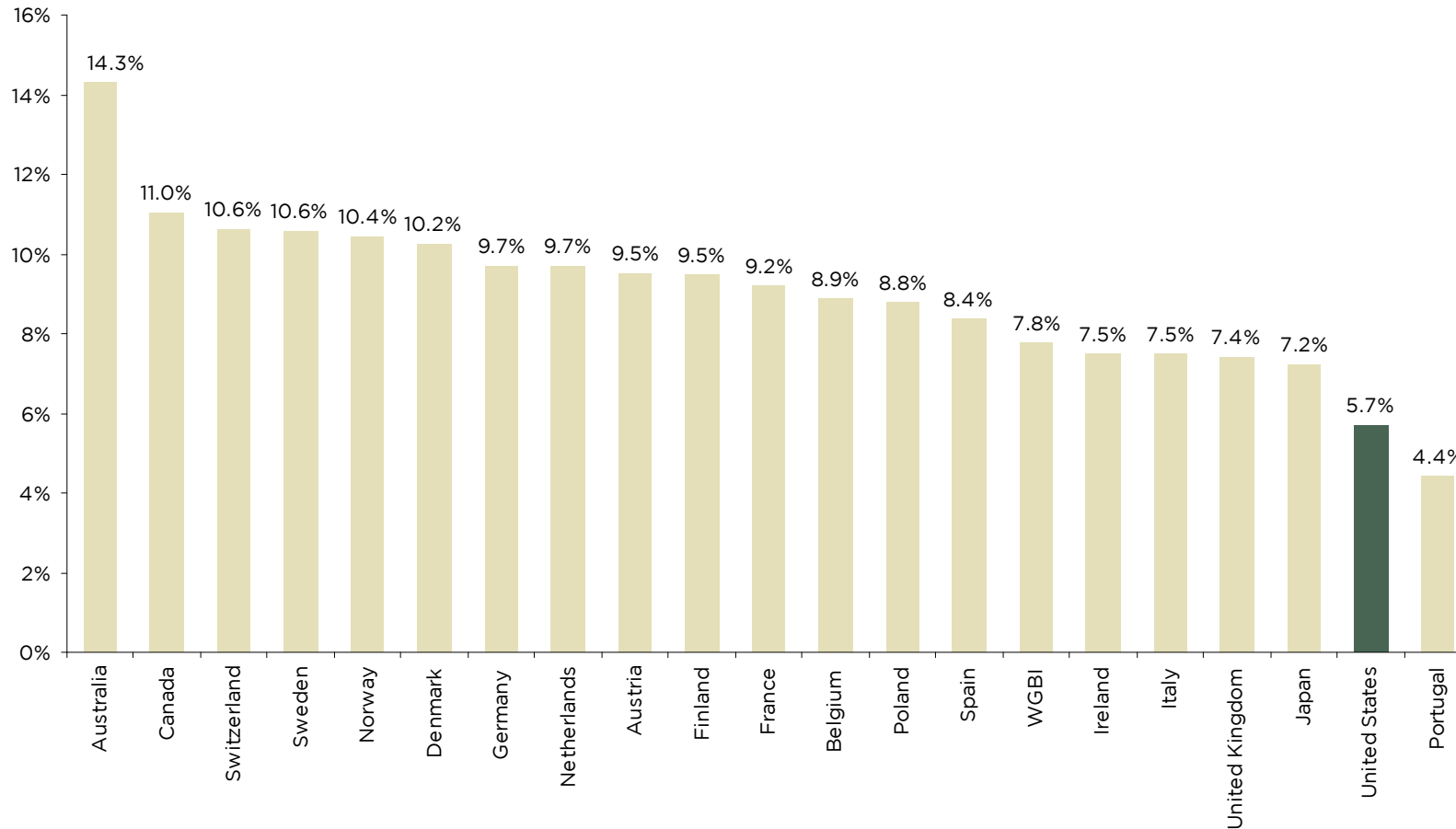
Source: Greenwich Associates

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# Performance Wise, U.S. Is Toward Back of Pack Within Global Bond Universes

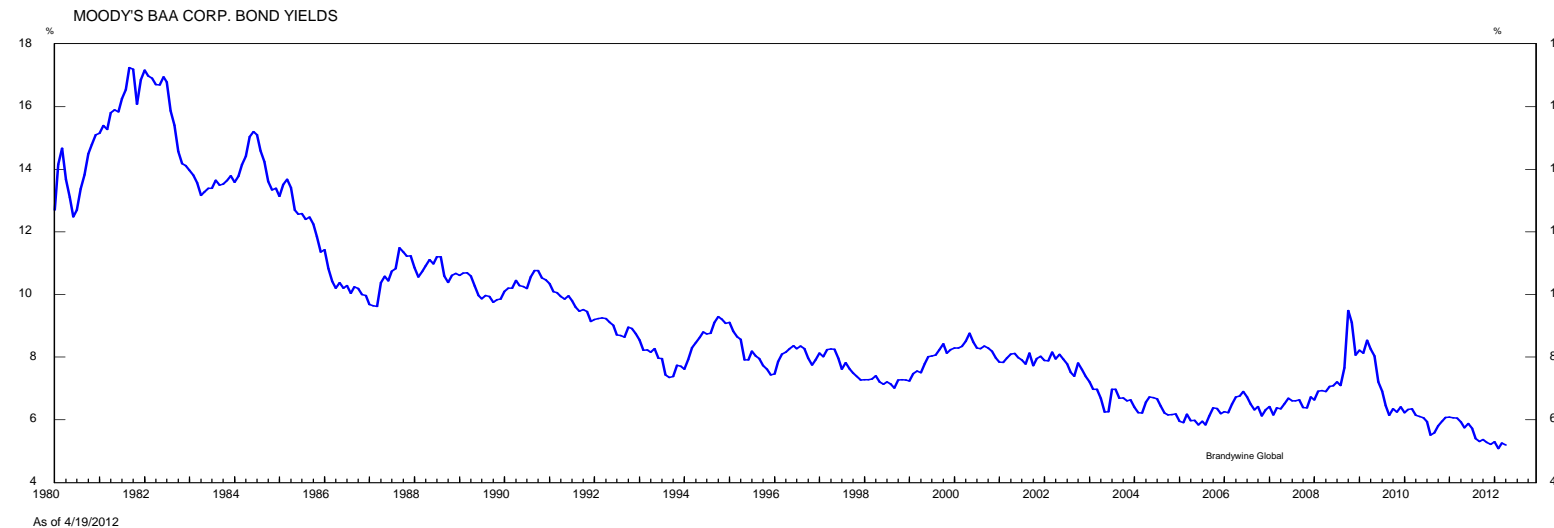
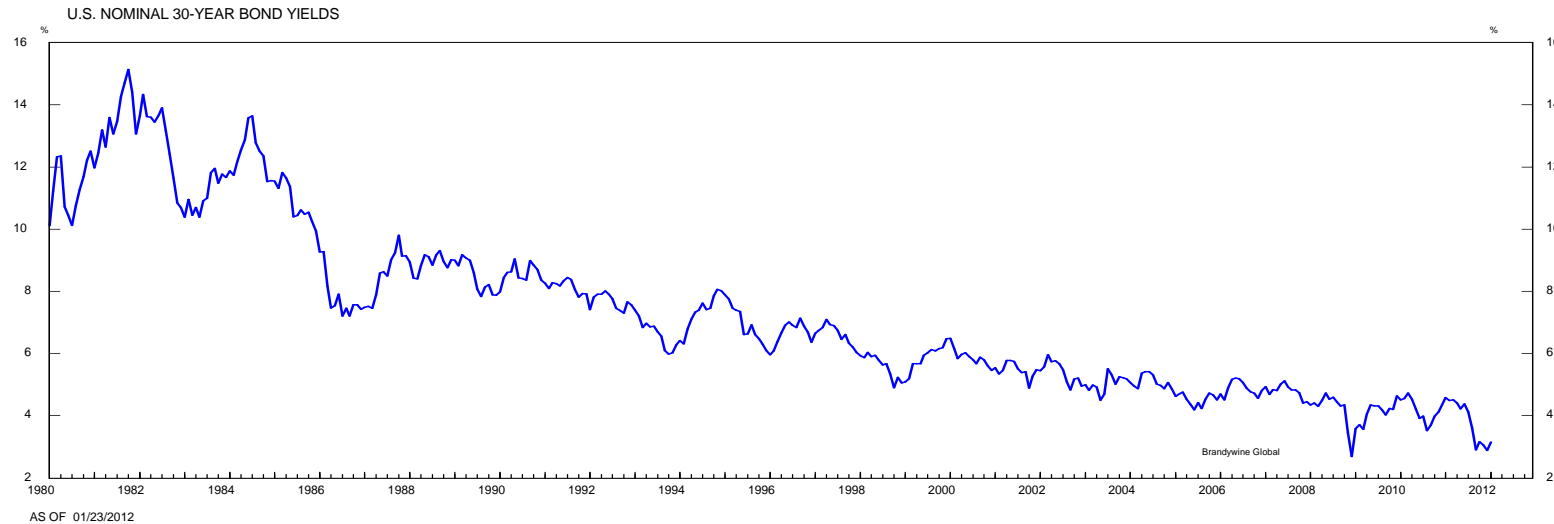
January 2002 - December 2011

## Enhancing Returns: 10-year country returns (\$-terms)



Source: Bloomberg – index provider for Citigroup World Government Bond Index which Brandywine believes to be reliable and accurate. Bloomberg provides Brandywine Global with Fixed Income Index returns and characteristics. This data is provided for informational use only. Indices are unmanaged and not available for direct investment. The countries discussed herein should not be perceived as investment recommendations. It should not be assumed that investments in countries listed were or will be prove to profitable, or that the investment decisions will make in the future will be profitable. Country weights with regard to any particular client account may vary based on any investment restrictions applicable to the account. There may be additional risks associated with international investments. International securities may be subject to market/currency fluctuations, investment risks and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be for everyone. Fixed income securities are subject to credit risk and investment. International investing may not be suitable for everyone. **Past performance is no guarantee of future results.**

# How Much Lower Can U.S. Yields Go?



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## Objective – Reducing Additional Credit Risk, Capturing Yield

	S&P Rating	Yield	Spread to U.S. (in basis points)
<b>As of 12/31/2011</b>			
Australia	AAA	3.41	<b>240</b>
Austria	AAA	2.27	<b>126</b>
Canada	AAA	1.53	<b>53</b>
Denmark	AAA	1.08	<b>7</b>
Finland	AAA	1.58	<b>57</b>
France	AAA	2.28	<b>127</b>
Germany	AAA	1.25	<b>24</b>
Netherlands	AAA	1.49	<b>48</b>
Norway	AAA	1.73	<b>72</b>
Singapore	AAA	1.12	<b>11</b>
Sweden	AAA	1.26	<b>25</b>
Switzerland	AAA	0.40	<b>-61</b>
United Kingdom	AAA	1.86	<b>85</b>
United States	AA+	1.01	<b>0</b>
Belgium	AA	3.31	<b>230</b>
Japan	AA-	0.74	<b>-27</b>
Spain	AA-	4.26	<b>325</b>
Italy	A	6.03	<b>503</b>
Malaysia	A	3.30	<b>229</b>
Poland	A	5.15	<b>414</b>
Mexico	A-	6.14	<b>513</b>
Ireland	BBB+	8.03	<b>702</b>
Portugal	BBB-	14.27	<b>1326</b>

Investment Grade- High Credit worthiness

AAA = Gilt edge, prime, maximum safety

AA = Very high grade, high quality

A = Upper Medium grade

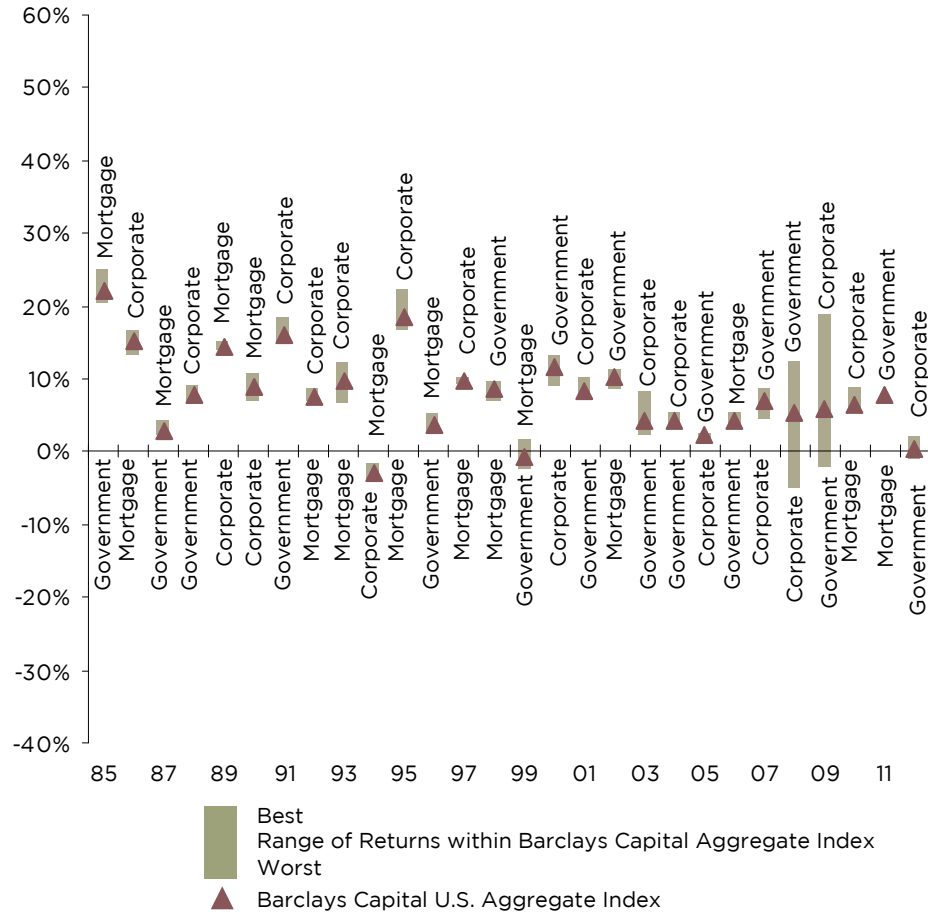
Source: Bloomberg – Index provider for Citigroup World Government Bond Index and S&P. There may be additional risks associated with international investments. International securities may be subject to market/currency fluctuations, investment risks and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be for everyone. Fixed income securities are subject to credit risk and investment. International investing may not be suitable for everyone. **Past performance is no guarantee of future results.**

# The Better Source of Alpha?

As of 3/31/2012

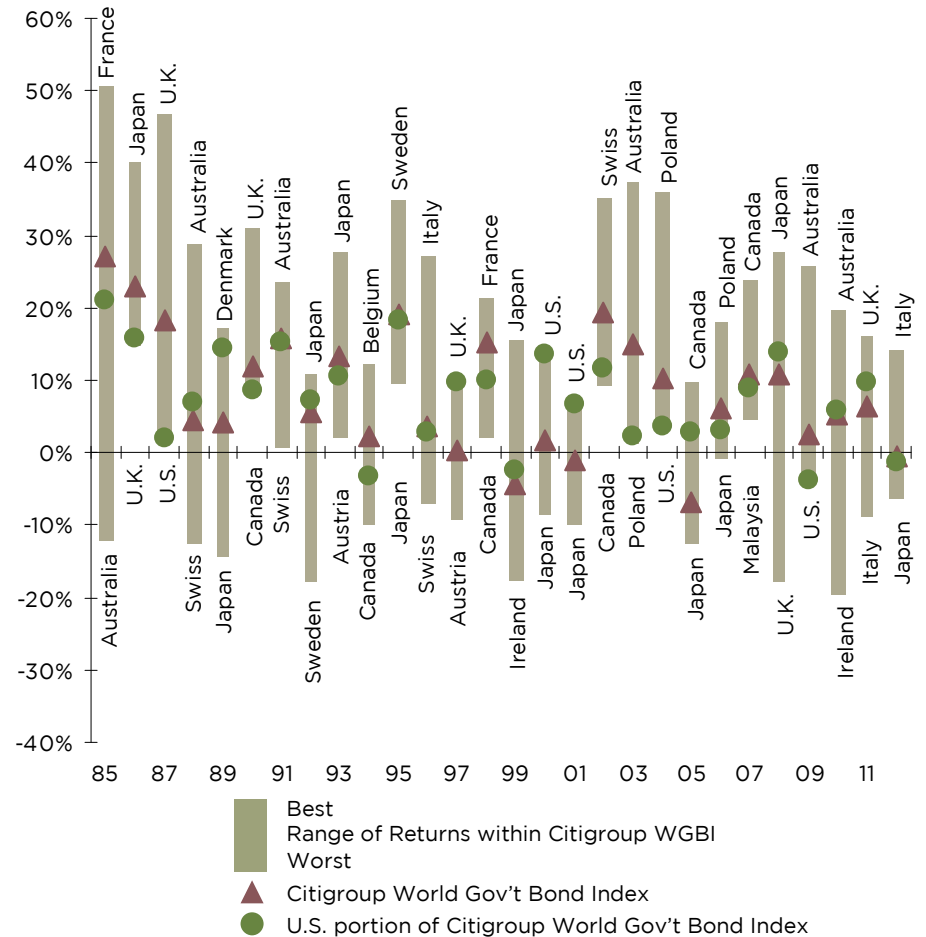
## Domestic Dispersion Chart

- Limited dispersion equals limited opportunity



## Global Bonds are an Opportunity Class

- Bond market returns vary widely across countries over time
- Opportunity to focus on overweighting the countries that are likely to outperform and underweighting those likely to underperform



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# International Bond Correlations Are Compelling When Compared to Other Asset Classes

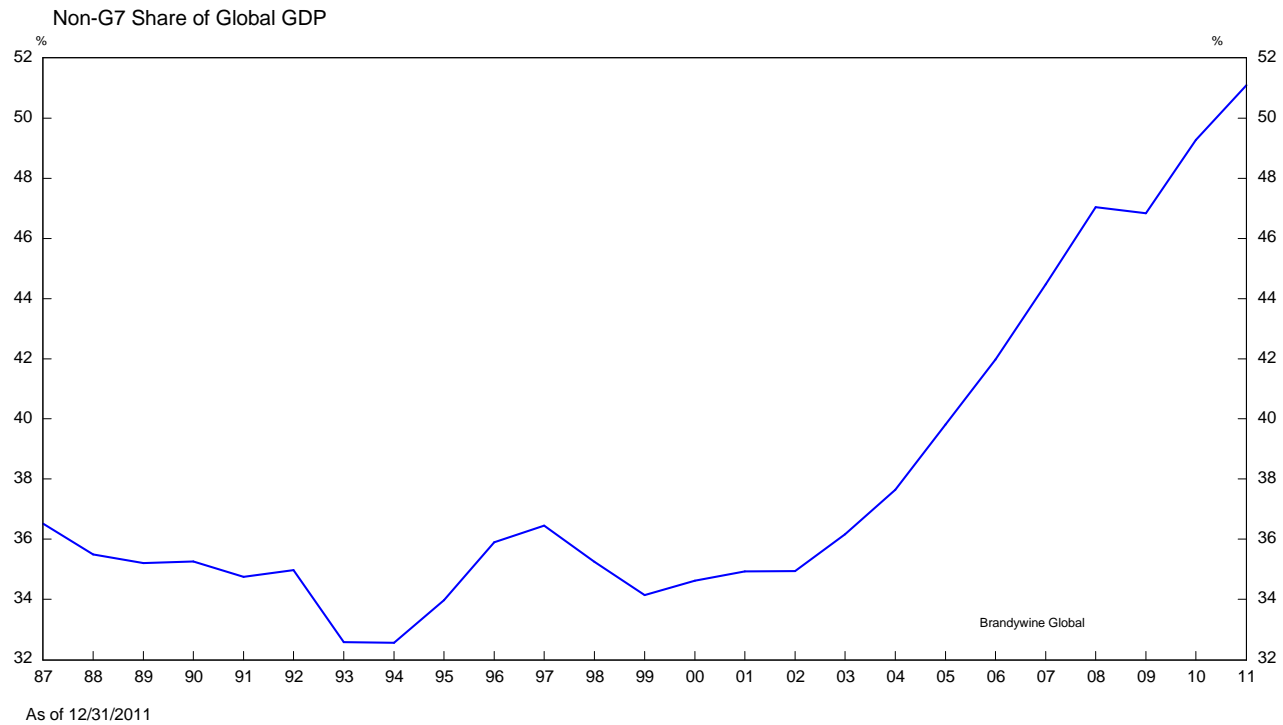
As of 12/31/2011

	Merrill Lynch U.S. Treasury Index	Merrill Lynch U.S. Corporate Index	Merrill Lynch U.S. Mortgage Backed Securities Index	Merrill Lynch U.S. High Yield Index	Merrill Lynch Global High Yield Index	Merrill Lynch Global Emerging Markets Sovereign Plus Index	Barclays Capital U.S. Aggregate Index	Barclays Capital Global Aggregate ex-U.S. Index	MSCI EAFE Index (Net)	S&P 500 Index
Merrill Lynch U.S. Treasury Index	1.00	0.70	0.85	-0.05	-0.19	0.16	0.93	0.44	-0.08	-0.06
Merrill Lynch U.S. Corporate Index	0.70	1.00	0.72	0.54	0.56	0.46	0.88	0.47	0.30	0.31
Merrill Lynch U.S. Mortgage Backed Securities Index	0.85	0.72	1.00	0.14	0.02	0.30	0.92	0.39	0.05	0.10
Merrill Lynch U.S. High Yield Index	-0.05	0.54	0.14	1.00	0.99	0.52	0.24	0.17	0.56	0.60
Merrill Lynch Global High Yield Index	-0.19	0.56	0.02	0.99	1.00	0.60	0.17	0.30	0.71	0.64
Merrill Lynch Global Emerging Markets Sovereign Plus Index	0.16	0.46	0.30	0.52	0.60	1.00	0.33	0.22	0.52	0.54
Barclays Capital U.S. Aggregate Index	0.93	0.88	0.92	0.24	0.17	0.33	1.00	0.48	0.10	0.14
Barclays Capital Global Aggregate ex-U.S. Index	0.44	0.47	0.39	0.17	0.30	0.22	0.48	1.00	0.42	0.16
MSCI EAFE Index (Net)	-0.08	0.30	0.05	0.56	0.71	0.52	0.10	0.42	1.00	0.74
S&P 500 Index	-0.06	0.31	0.10	0.60	0.64	0.54	0.14	0.16	0.74	1.00



# New Economic Leadership For The Global Economy

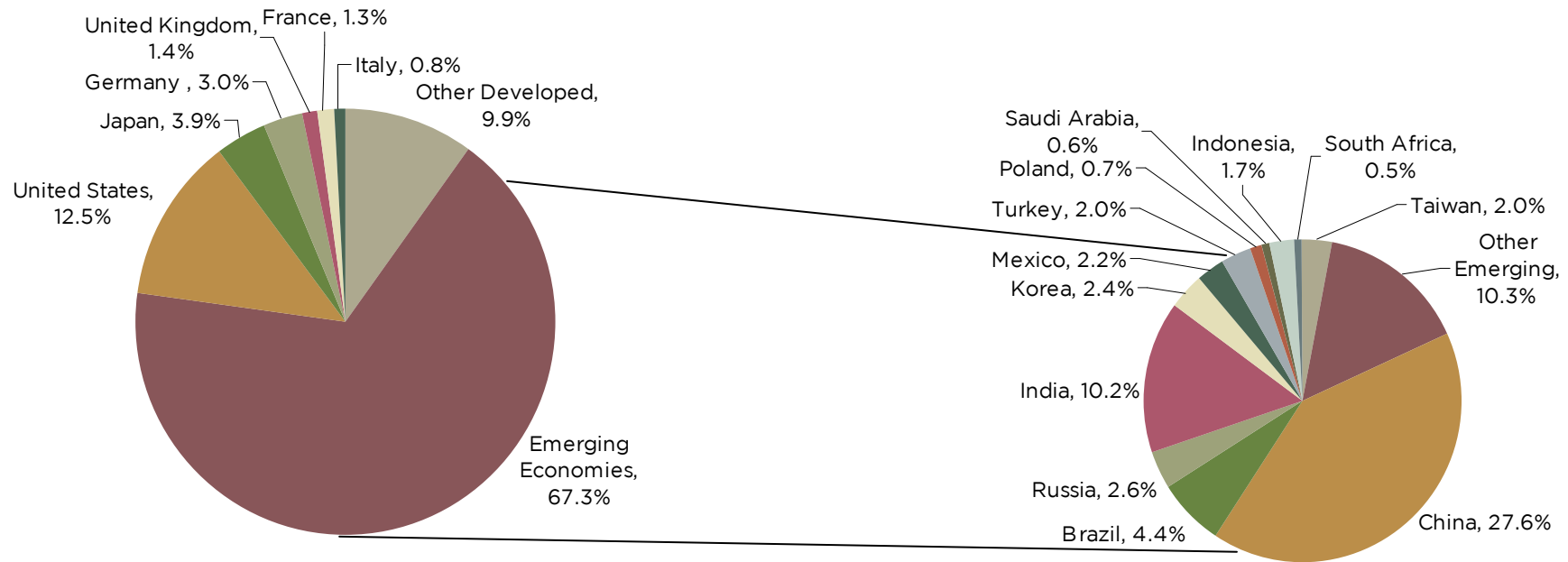
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# A Global Rebalancing Is Under Way

**Contribution To World GDP Growth (IMF)  
By Region & Country**

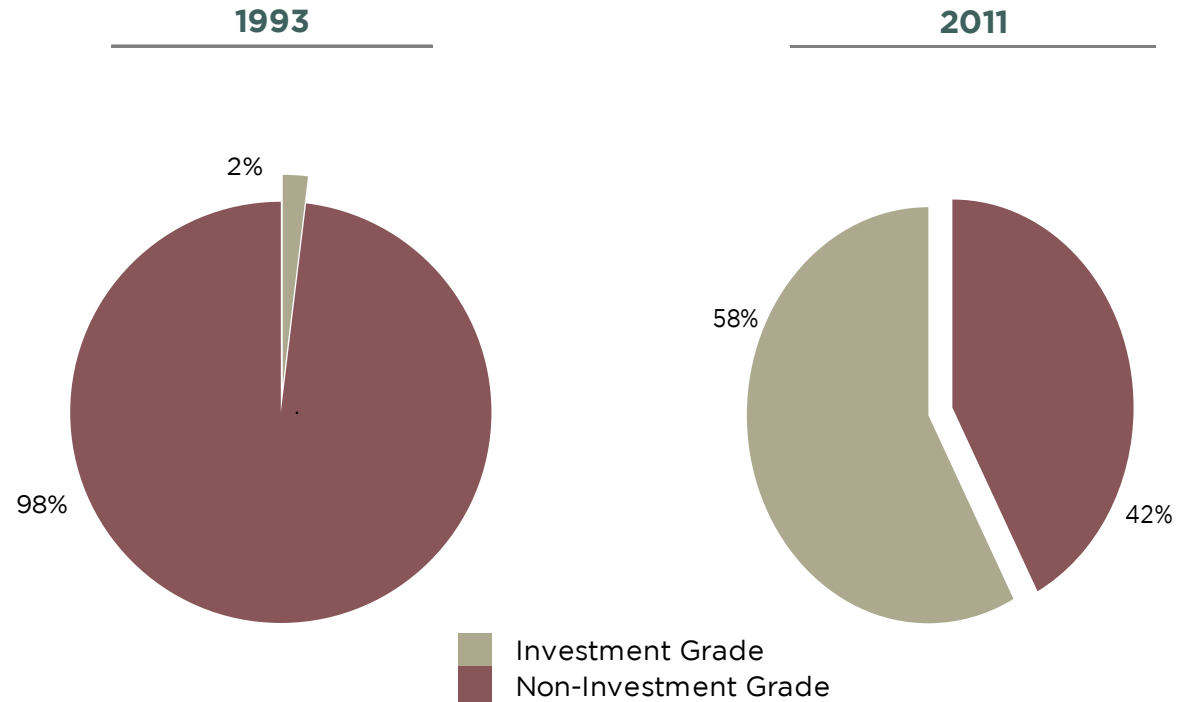


Source: Thomson Datastream, as of 12/31/2010

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# Developing Markets: Improving Credit Quality

Investment-Grade Emerging Debt Markets	S&P Rating
Chile	AA
China	AA-
Malaysia	A
Poland	A
South Africa	A
Brazil	A-
Mexico	A-
Colombia	BBB+
Kazakhstan	BBB+
Peru	BBB+
Russia	BBB+
Bulgaria	BBB
Lithuania	BBB
Tunisia	BBB
Croatia	BBB-
Panama	BBB-
Turkey	BBB-



AA = Very high grade, high quality  
 A = Upper medium grade  
 BBB = Lower medium grade

Source: Bloomberg Finance, LP. Index provider for J.P. Morgan EMBI and S&P Indices. Indices are unmanaged and not available for direct investment. Fixed income securities are subject to credit risk and interest rate risk. International securities may be subject to market/currency fluctuations, investment risks and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be for everyone. International investing may not be suitable for everyone. **Past performance is no guarantee of future results.**

# Who We Are and What Distinguishes Us

As of 3/31/2012

## Brandywine Global<sup>1</sup> is a mid-sized boutique investment firm

- \$37 billion under management in equity and fixed income strategies
- 159 employees worldwide, with headquarters in Philadelphia, an office in San Francisco, a subsidiary in Singapore<sup>2</sup> and an operating unit in London<sup>3</sup>
- All strategies are focused on capturing value anomalies.

## We value individual thought and responsibility

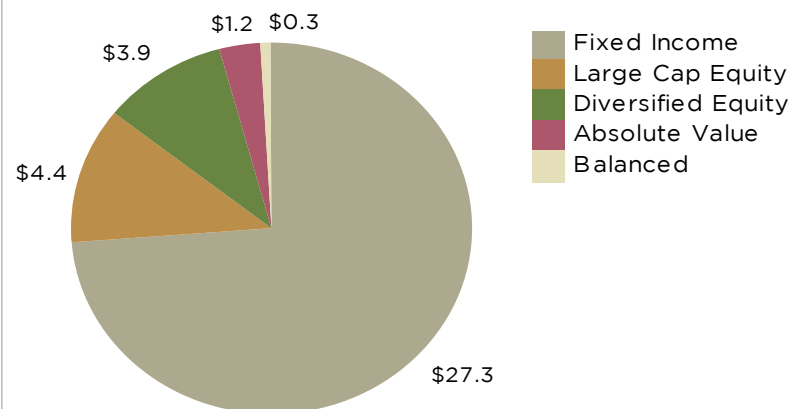
- Culture of partnership and teamwork
- Small teams of experienced, performance-driven investors
- Investment philosophies are tailored to the nature of the asset class.

## Brandywine Global is an independent subsidiary of Legg Mason, Inc.<sup>4</sup>

- Brandywine Global operates as a fully autonomous entity, with complete control over investments, hiring, and compensation.
- Legg Mason provides certain corporate services - such as internal audit, insurance, and international support - aimed at leveraging internal control and cost efficiencies.

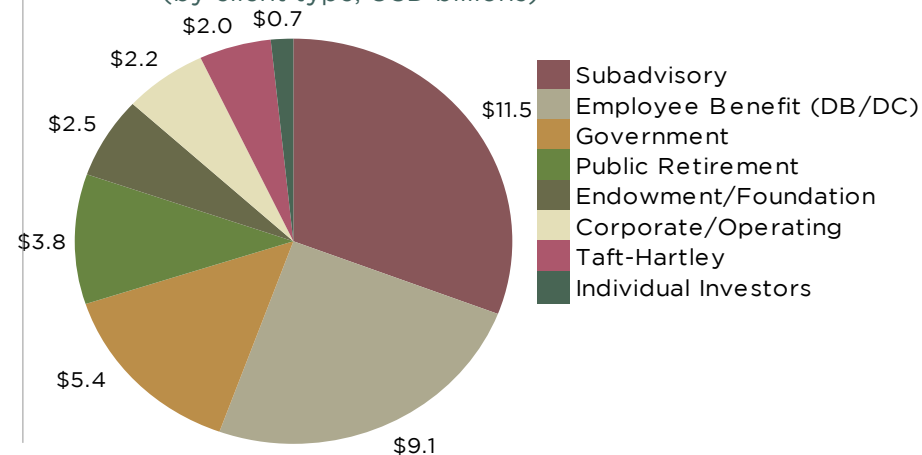
### Assets Under Management

(by strategy type; USD billions)



### Assets Under Management

(by client type; USD billions)



<sup>1</sup>Brandywine Global Investment Management, LLC, formerly known as Brandywine Asset Management, LLC.

<sup>2</sup>Brandywine Global Investment Management (Asia) Pte. Ltd.

<sup>3</sup>Brandywine Global Investment Management (Europe) Limited is authorized and regulated by the Financial Services Authority (the "FSA"). (FRN 472774). Registered in England and Wales, No. 06324517.

<sup>4</sup>As a wholly owned subsidiary of Legg Mason, Brandywine Global is affiliated through common ownership with all of Legg Mason's other subsidiaries and joint ventures. Please refer to Part II of our ADV for a discussion of the affiliates with whom Brandywine Global has a direct business relationship; for example, where we provide advisory services.

# Investment Philosophy & Goals

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## Basic Tenets of Our Investment Philosophy

- We seek returns in the portfolio by:
  - Investing in bonds with the highest real yields
  - Actively managing currency exposures in order to protect principal and enhance returns
  - Patiently rotating among countries
  - Controlling risk by purchasing undervalued securities

## Investment Goals:

- To outperform an index of developed global bond markets by at least 2% annually over rolling 5 year periods
- To provide long-term returns in excess of the rate of inflation
- To capture interest income and generate principal growth through capital appreciation when market conditions permit

## We Don't Believe In:

- Indexing/"benchmark-hugging"

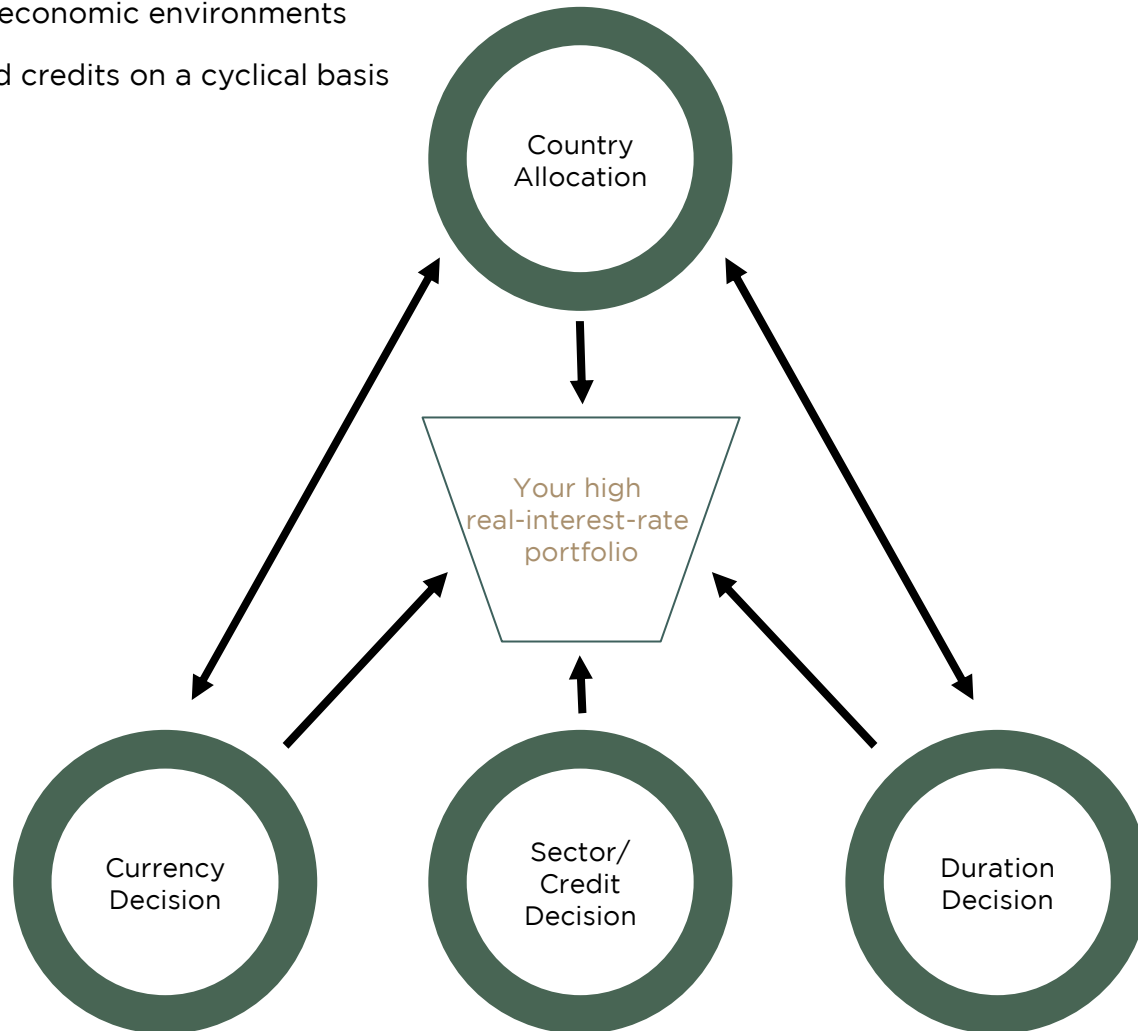
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# Investment Process Overview

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## We search for:

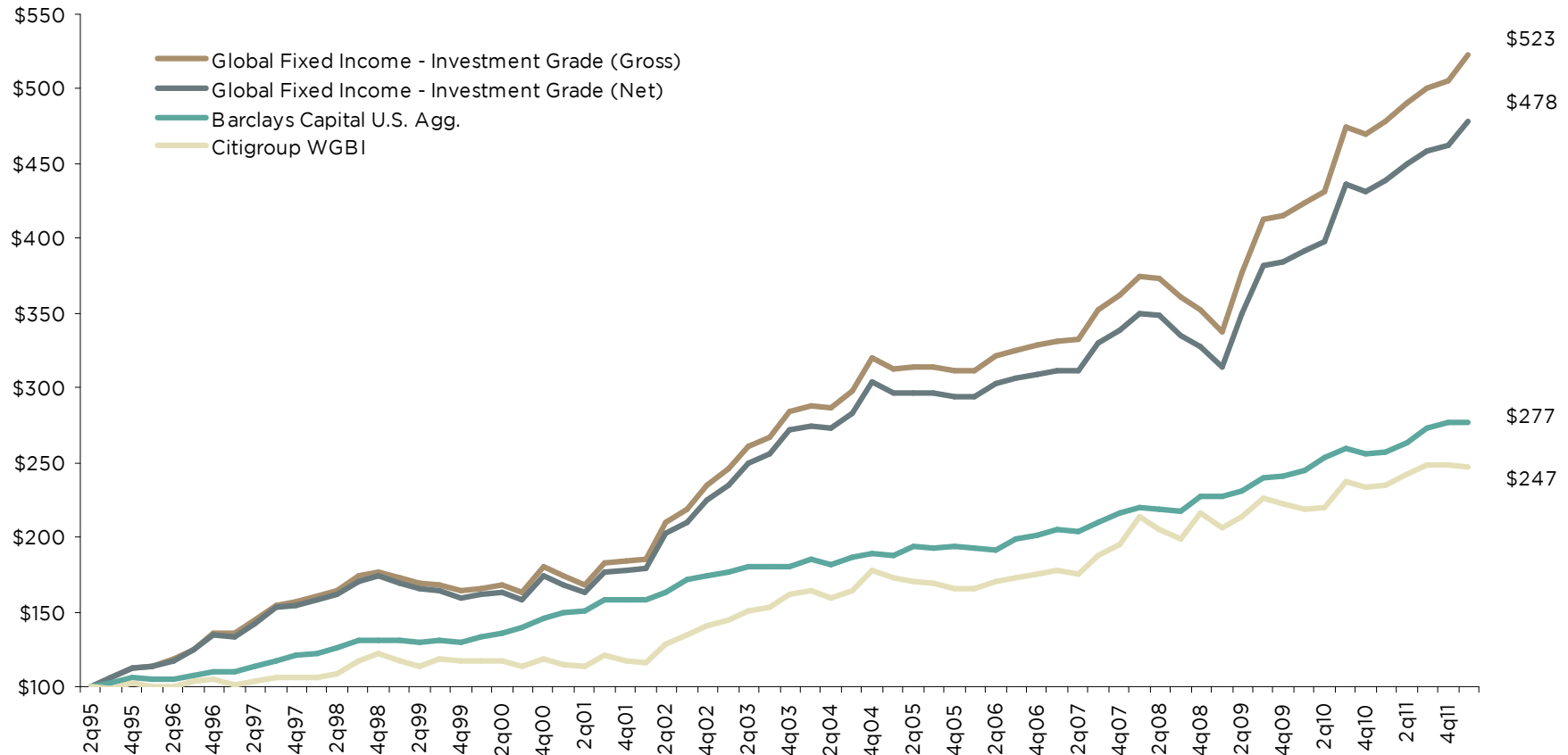
- The highest real yield countries
- Supportive currencies
- Positive political and economic environments
- Attractive sectors and credits on a cyclical basis



# Global Fixed Income - Investment Grade: Growth of \$100

As of 3/31/2012

## Growth of \$100\* Since July 1995



\*Supplemental information to the attached Global Fixed Income- Investment Grade GIPS-compliant composite

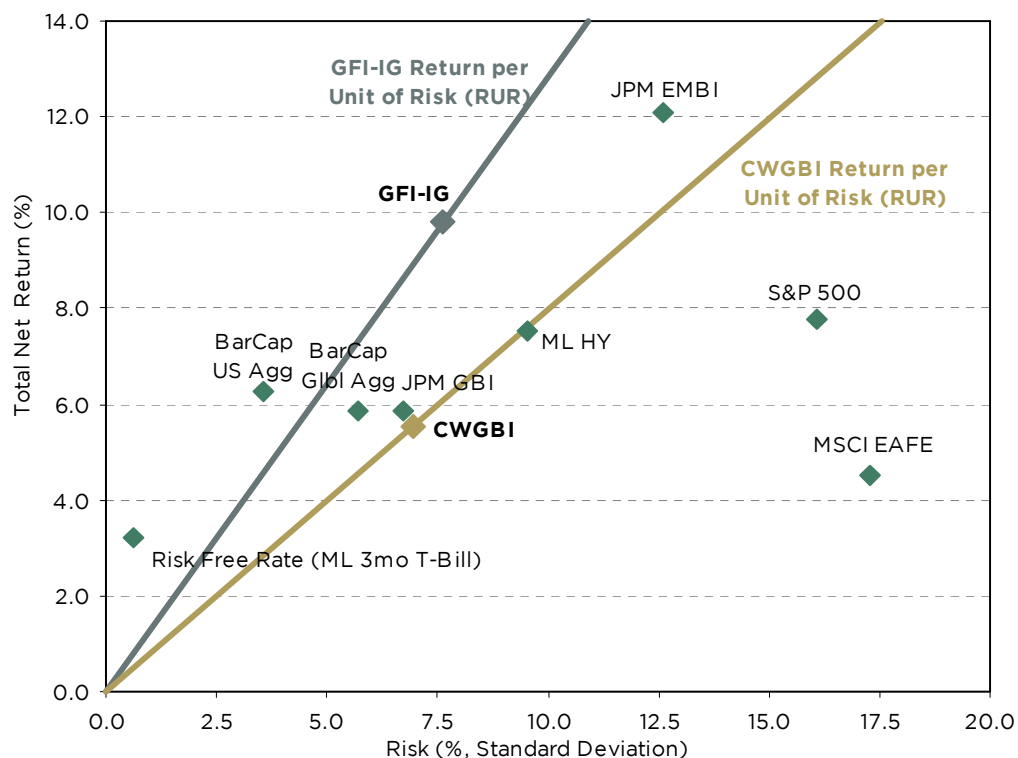
The growth of \$100 is calculated off the composite return (Global Fixed Income Investment-Grade) and uses returns applied to \$100 at inception. Data is obtained through Citigroup Inc. and Barclays Capital ©2012, which Brandywine Global believes to be reliable and accurate. The Citigroup World Government Bond Index (WGBI) measures the performance of fixed-rate local currency investment grade sovereign bonds. This widely adopted benchmark is currently comprised of sovereign debt from 23 countries denominated in 14 currencies. The index was created in 1986 and offers more than 25 years of index history. The Barclays Capital U.S. Aggregate 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. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Indices are unmanaged and not available for direct investment. This data is provided for informational use only. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest management fee as described in Part II of the firm's ADV, which is available upon request. Please refer to the Appendix at the end of this presentation for a full description of Brandywine Global's fee schedule, and our GIPS compliant performance presentations, which include index descriptions, Performance Footnotes and Disclosures. **Past performance is no guarantee of future performance.**

# Global Fixed Income Investment Grade Correlation and Returns

As of 3/31/2012

Our strategy can be an excellent diversifier and has provided a strong return per level of risk

**Risk versus Net Return\* - Since June 30, 1995 (Annualized)**



**Comparative Statistics\* - Since June 30, 1995**

	Annualized Returns (%)	Annualized Standard Deviation (%)	Return per Unit of Risk (RUR)	Sharpe Ratio	Correlation
<b>BGIM GFI Investment Grade Composite (Net)</b>	<b>9.79</b>	<b>7.63</b>	<b>1.28</b>	<b>0.86</b>	
Citigroup World Government Bond Index (unhedged)	5.55	6.95	0.80	0.34	0.74
Barclays Capital U.S. Aggregate Bond Index	6.28	3.57	1.76	0.86	0.64
Barclays Capital Global Aggregate Bond Index	5.87	5.71	1.03	0.47	0.82
J.P. Morgan GBI Global Index	5.84	6.74	0.87	0.39	0.74
Merrill Lynch High Yield Masters II Index	7.53	9.53	0.79	0.45	0.44
MSCI EAFE Index	4.54	17.29	0.26	0.08	0.44
JP Morgan EMBI Global Index	12.07	12.61	0.96	0.70	0.39
S&P 500 Index	7.79	16.07	0.48	0.29	0.32

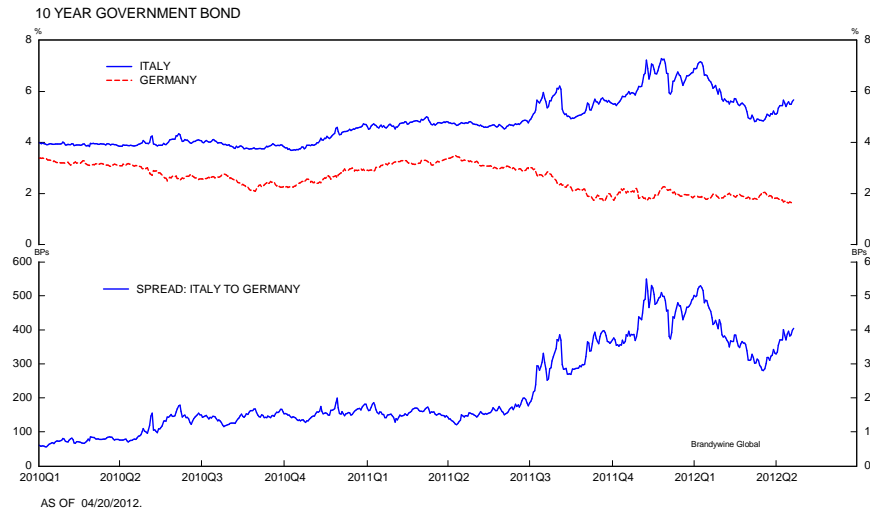
\*Supplemental information to the attached GIPS-compliant Global Fixed Income Investment Grade composite

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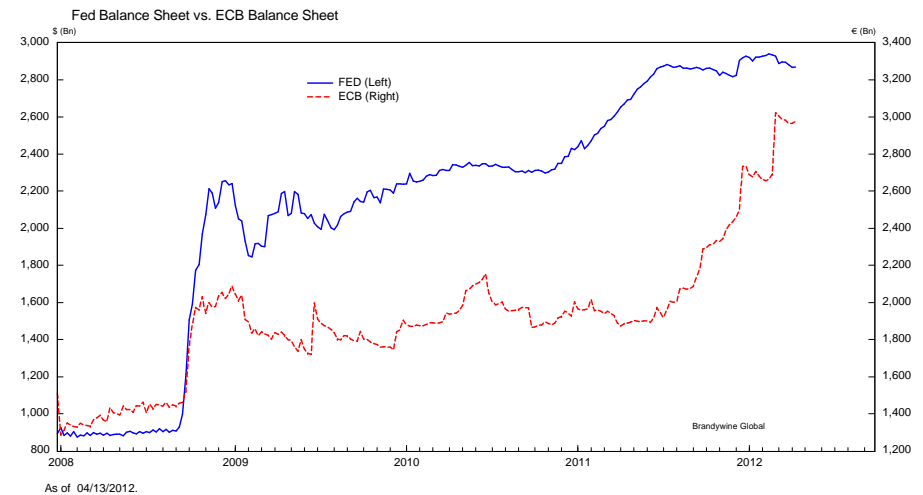
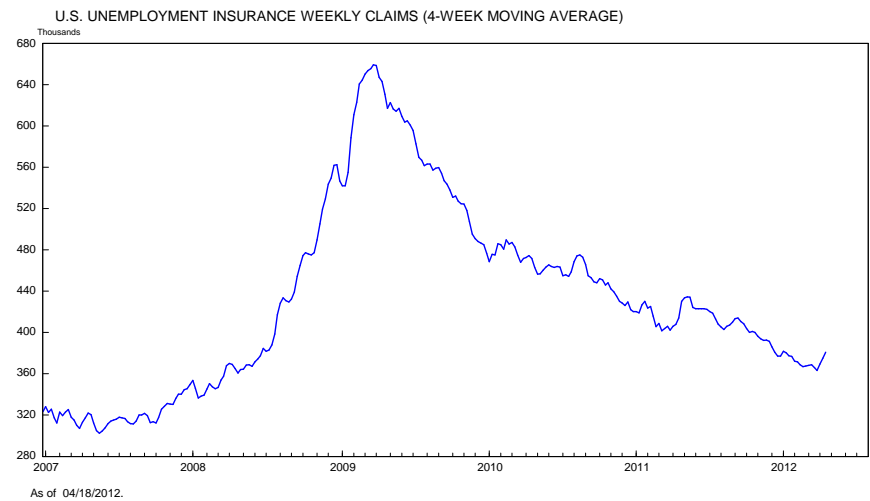


# Global Markets: Prudence Demands Some Type Of Barbelled Approach To Portfolio Positioning

## The Negatives



## The Positives



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