Global Alternative Credit Review

Fixed Income Relative Value - 4Q 2017

STRATEGY ASSETS: $651 million
PERFORMANCE: The strategy returned 1.21% gross (net of fees 0.90%) for the 4th quarter.
NOTE: The Global Alternative Credit strategy was formerly called Global Credit Opportunities.

COMPOSITE PERFORMANCE[1]

GLOBAL ALTERNATIVE CREDIT COMPOSITE ($USD) AS OF DECEMBER 31, 2017

% RETURN	QTD	YTD	ONE YEAR	THREE YEAR	FIVE YEAR	SEVEN YEAR	SINCE INCEP.[2]
Gross	1.21	10.22	10.22	4.20	6.55	10.24	13.69
Net	0.90	8.86	8.86	2.91	5.07	8.61	12.01
LIBOR+600[3]	1.82	7.26	7.26	6.77	6.56	6.51	6.50

[1]Supplemental information to attached Global Alternative Credit GIPS composite
[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 returned 1.21% (0.90% net of fees) for the fourth quarter of 2017. Returns were driven by positions within mortgage-backed securities (MBS), high yield credit, and emerging markets within Latin America. U.S. and European MBS contributed strongly to returns, including positions in credit risk transfer (CRT) instruments and Freddie Mac multifamily securities. High yield cash bond positions, including debt issued by a Caribbean telecom provider, a U.S. specialty chemicals company, a U.S. onshore oil and gas exploration and production company, as well as exposure to Brazilian corporate issuers all added value in the quarter. Synthetic exposure to Argentine and Brazilian sovereign debt contributed positively during the quarter along with additional long exposure to U.S. high yield markets. Strong performance was slightly offset by exposure to local currency Mexican and Brazilian sovereign debt.

POSITIONING

The largest portfolio changes occurred within structured credit and credit default swaps (CDS) during the quarter. Exposure to U.S. high yield corporate credit was increased by 35% (notional) after a sell-off in mid-November, along with an approximately 7% increase in short-duration U.S. government cash bond exposure. While exposure to structured credit was reduced during the quarter, sales of both agency and non-agency U.S. commercial MBS were partially offset by the purchase of student loan and rental car securitizations. Local-currency emerging market sovereign debt exposure was adjusted during the quarter with a reduction of exposure to Brazilian and Mexican

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sovereigns in favor of Indonesian and Peruvian government bonds. Exposure to Argentina was increased through U.S. dollar-denominated CDS as opposed to local-currency sovereign debt to capture an improving credit story when compared to other Latin American counties and to limit exposure to continued inflationary pressures.

Currency positioning within both emerging markets and developed markets was adjusted in the fourth quarter. Within developed markets, exposures to the U.S. dollar and British pound were increased while exposure to the euro was reduced. Within emerging markets, currency adjustments came primarily from the purchase or sale of local-currency sovereign debt. These included increased exposures to the Indonesian rupiah and Peruvian nuevo sol while Brazilian real and Mexican peso exposures were reduced. Argentine peso exposure increased through exposure to a floating-rate corporate bond.

Duration was reduced by approximately 0.6 years primarily due to sales of MBS positions. Reduced exposure to Brazilian and Mexican local-currency sovereign debt also served to reduce duration, however, this change was partially offset by increased exposure to local-currency Indonesian and Peruvian government bonds.

MARKET COMMENTARY

As widely expected, the Federal Reserve (Fed) raised the federal funds rate at its December meeting, putting pressure on an already flattening yield curve. The 2-year Treasury yield rose while the longer end of the curve remained anchored by low inflation expectations. Despite low inflation, Chair Janet Yellen, and her successor, Jerome Powell, shared a commitment to normalizing monetary policy with three additional rate increases expected for 2018. Additional pressure on yields materialized as President Trump and Republicans passed major tax reform legislation just before year end. With the future of the North American Free Trade Agreement (NAFTA) hanging in the balance and political pressures rising, Mexican assets and the peso bore the brunt of political risk during the quarter. The Bank of Mexico's November decision to hold rates steady signaled that its era of tight monetary policy may be drawing to a close, potentially paving the way to policy easing and a lower rate environment, which may improve Mexico's business climate. In Europe, improving economic and sentiment indicators eclipsed political developments, such as the Catalan independence referendum and the re-

REPRESENTATIVE CHARACTERISTICS*

	PORTFOLIO
Average Credit Quality[4]	A-
Yield to Maturity (%)	3.27
Effective Duration (Yrs.)	0.66
Average Coupon (%)	2.71

SECTOR BREAKDOWN*

GROSS NOTIONAL EXPOSURE	% OF PORTFOLIO
Government Sovereign	45.86
Corporate Bond - HY	12.29
Prime MBS - U.S.	9.55
Prime MBS - Non-U.S.	8.66
MBS Agency CMBS	7.13
MBS Non prime	4.79
ABS	3.09
Leveraged Loans	1.83
Corporate Bond - IG	1.55
MBS Non- Agency CMBS	1.51
Cash	0.48
Currency Forward P/L	-0.21
Futures (Notional %)	-4.58
Credit Default Swap (Notional %)	49.15

RISK STATISTICS*

	3 YEAR	SINCE INC.
Net Return	2.91	12.01
Standard Deviation	4.03	6.75
Sharpe Ratio	0.63	1.75
Max Drawdown	9.41	9.41
Time to Recovery	11	11

COUNTRY & CURRENCY ALLOCATION*

COUNTRIES	% OF PORTFOLIO
United States	76.03
United Kingdom	6.19
Brazil	5.80
Jamaica	2.55
Spain	2.49
Peru	1.96
Indonesia	0.99
Argentina	0.75
Derivative P/L	3.25

CURRENCIES	% OF PORTFOLIO
US Dollar	92.15
British Pound	2.09
Euro	2.06
Peruvian Nuevo Sol	1.96
Indonesian Rupiah	0.99
Argentine Peso	0.75

CREDIT RATINGS*

	% OF PORTFOLIO
BBB & Higher	69.5
BB	9.1
B	11.1
CCC-C	4.7
D	0.9
NR	4.9

[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 composite.

surgence of the far-right in Eastern Europe—a movement that partly jeopardized Chancellor Angela Merkel's coalition. Eurozone consumer confidence hit a 16-year high while corporate loan growth reached a post-crisis watermark, bolstering optimism in the region. Despite favorable tailwinds, the European Central Bank (ECB) pledged to remain accommodative through 2018. However, the ECB's commitment to accommodative policy did little to hold down the euro, which climbed higher due to the ongoing strength of the eurozone economy. The Bank of Japan's (BOJ) commitment to accommodative policy was extended with Prime Minister Shinzo Abe's reelection. Japanese government bonds rallied due to the continuation in stewardship and nascent signs of inflation. The Bank of England (BOE) raised its policy rate for the first time, helping longer-dated gilts rally.

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	0.25	0.27	0.69	10.22
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	0.15	0.16	0.59	8.86
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	0.60	0.60	0.61	7.26
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 composite.
^Calendar year returns or year-to-date returns.
Past performance is no guarantee of future results.

The combination of stronger global growth, low volatility, and improving commodity prices generally were beneficial to risk asset performance during the quarter, including equities, emerging markets, and credit markets. Both U.S. investment grade and high yield credit produced positive returns, with high yield spreads compressing. Fundamentals within U.S. investment grade and high yield corporate credit remained solid, although both market segments may come under pressure in 2018 as the Fed normalization continues or if the U.S. Treasury curve continues to flatten. Within U.S. investment grade corporate credit, leverage and interest coverage ratios remained suppressed, while default rates were low within the high yield universe. Spreads on the pan-European high yield index widened, however, despite expensive valuations within European credit, the regional financials sector extended its rally, posting some of the biggest gains in 2017. Within structured credit, spreads remained tight, but credit risk transfers, non-agency reperforming loans, Freddie K mezzanine bonds, and select commercial mortgage-backed securities continued to deliver strong performance.

In emerging markets, despite positive export activity and private consumption, Brazilian assets underperformed for the quarter against growing uncertainty around elections and reforms, erasing any modest gains made throughout the year. However, other emerging market assets generally

outperformed developed markets, helped by the softer U.S. dollar, robust global growth and export demand, and rising commodity prices. Several Asian markets fared particularly well, including Indonesia and India. Central and Eastern European countries, including Poland, Hungary, and Turkey, also rallied as their economies expanded alongside the eurozone despite political risks.

OUTLOOK

We believe synchronized global growth will likely continue to provide a constructive backdrop for global capital flows during the first half of 2018. With these conditions, credit and 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, albeit one that is slowly ticking higher, 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 select emerging markets and the U.S. Political risks remain in Europe as the Italian elections and the country's populist movement will come into focus during the first quarter. The Fed is expected to follow its dot plots on the path to normalization, though wildcards like low inflation and new Federal Open Market Committee leadership may complicate the outlook. The BOE and Bank of Canada also may modestly continue to normalize policy rates. Other developed market central banks, particularly the ECB and the BOJ, have signaled continued accommodation through 2018 while indicating that potential changes to those policies may occur. As we see it, emerging market central banks have room to continue easing, therefore, we think global monetary policy will generally remain accommodative. Positive economic indicators have globally crystallized and should continue to generate better global growth. Therefore, we plan on managing these risks by continuing to invest in high-conviction U.S. high yield bonds, as well as 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 risk-off ballast; currency management is another tactic that may provide downside protection while allowing us to maintain core positions during times of volatility.

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The 3-month US Dollar (USD) LIBOR (London Interbank Offered Rate) interest rate is the average interest rate at which a selection of banks in London are prepared to lend to one another in US dollars with a maturity of 3 months. Indices are unmanaged and not available for direct investment.

Please refer to the attached GIPS compliant composite presentation, which include performance footnotes, fee schedules, index descriptions and disclosures. This material may not be reproduced or used in any form or medium without express written permission. Unless otherwise noted, performance returns and other data are current as of the date stated at the top of the page. Brandywine Global will not undertake to update the information at a later date. **Past performance is no guarantee of future results.**

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Global Alternative Credit Composite | As of December 31, 2017 | Results shown in USD - Final

ANNUALIZED RETURNS

	COMPOSITE RETURN GROSS OF FEES (%)	COMPOSITE RETURN NET OF FEES (%)	US 3 MONTH LIBOR + 600BPS (%)
QTD	1.21	0.90	1.82
YTD	10.22	8.86	7.26
1 YEAR	10.22	8.86	7.26
3 YEAR	4.20	2.91	6.77
5 YEAR	6.55	5.07	6.56
7 YEAR	10.24	8.61	6.51
SINCE INCEPTION 9/2010	13.69	12.01	6.50

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	10.22	8.86	7.26	4	612	74,382	N/M	4.03	0.11
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.