For Immediate Release

Contact: **Maria Rosati**
212-805-6036
mrosati@leggmason.com

LOW U.S. TREASURY BOND RETURNS TURNING FIXED INCOME INVESTORS' EYES OVERSEAS

BRANDYWINE GLOBAL SEES ATTRACTIVE POSSIBILITIES IN EUROPEAN HIGH YIELD DEBT

Philadelphia, PA, December 16, 2014 – With U.S. Treasury bonds offering safety but low returns, many fixed income investors are turning to other markets in pursuit of greater gains. Leaving the safety of a slow but steadily growing U.S. economy can mean taking on more risk, but the premiums offered by bonds in countries with wobbly economies can be worth it. The markets and securities must be well chosen, however, and hedging currency or interest rate risk may be necessary to benefit from the best credit opportunities outside the U.S.

Attractive credit yields have led the Global High Yield team at Brandywine Global, a subsidiary of Legg Mason, to take a favorable view of European high yield debt. They find the European high yield market particularly attractive, even with overall economic growth so low that many are concerned with deflation.

"Yes, we are pessimistic about the long-term euro-zone growth rates," said Gary Herbert, a Brandywine Global portfolio manager specializing in high yield securities. "European nations are facing many serious fiscal problems, individually and as a whole. This is bad for many, but it has created positive opportunities for investors in European high yield bonds."

Mr. Herbert and his team have taken large positions in residential mortgage-backed securities, particularly those tied to Spain, and Portugal. The challenges facing these housing markets have been well documented, as have the struggles of the European Central Bank (ECB) under President Mario Draghi to enact monetary policy that will help turn economic tides. Where others are pessimistic, however, Brandywine Global sees possibilities for outsized returns.

"It may appear counter-intuitive, but the euro-zone mortgage-backed opportunity is similar to what we saw in the U.S. with non-agency mortgage debt after the 2008 credit crisis," Mr. Herbert explained. "We are exploiting what we view as undue pessimism to create value for our clients. There is some risk, as there is with any credit security, but by hedging euro currency risk to focus on exposure to euro-zone credit spreads, we find the risk moderate and manageable."

The Brandywine Global team notes leverage attachment points (e.g. debt/EBITDA) are more favorable in Europe than in the U.S. And despite better credit metrics, investors receive wider credit spreads to own the lower-quality segments of European high yield debt. Yield-to-worst comparisons, a measure of absolute yields, may look more attractive for U.S. high yield at first glance, but that discrepancy is driven by higher U.S. sovereign yields, not wider credit spreads.

"There is little doubt that growth fears in Europe and many emerging markets are weighing on investors' risk appetites," Mr. Herbert explained. "The U.S. is the only major economy outpacing expectations, which were already dim from the outset. Global growth is only slightly expansionary, despite substantial policy support. That does not mean excess return opportunity and yield spreads are not out there, but it does make them harder to spot."

Brandywine Global analysis indicates that growth deceleration in Europe follows a significant contraction in base money (the amount of central bank liabilities in the system), weak growth across all monetary aggregates (narrow and broader measures of money supply), and non-existent credit growth to euro-area residents. Not one

euro-zone country, including Germany (where housing markets were white hot in late 2013 and early 2014), exhibited growth in private-sector credit during the prior 12 months. While this is a precarious position for Europe, it is a self-inflicted situation that can be reversed to some extent with monetary and fiscal policy."

According to Mr. Herbert, "Passive monetary tightening in past years, coupled with sharp decreases in energy prices, is pulling core consumer price index rises into disinflationary conditions bordering on deflation. As a consequence, the ECB will certainly execute large-scale asset purchases in early 2015 targeting corporates and potentially sovereign debt. We believe these actions will help jump-start the credit cycle in Europe as well as spark a euro-zone hunt for yield, which should benefit investors in European credit, especially in higher-yielding credit."

An important question for asset managers is whether fiscal and monetary policy will become more supportive in the euro zone, or will these policies instead turn even more punitive?
"Asymmetric inflation hawks in Germany may stand in the way, but that hurdle should disappear once the disinflationary malaise hits economic data in Germany," Mr. Herbert judged. "Exploiting this pessimism today by owning high yield euro-zone credit – while unpopular – should provide excess returns over the next several years."

###########################

About Gary Herbert

Gerhardt (Gary) P. Herbert, CFA is a portfolio manager for Brandywine Global's fixed income group, with a concentration in high yield securities. Mr. Herbert joined Brandywine Global in March 2010, bringing with him over 20 years of high yield experience. Previously he was a managing director, portfolio manager with Guggenheim Partners, LLC (2009-2010); a managing director, portfolio manager with Dreman Value Management, LLC (2007-2009); and an executive director, portfolio manager (1999-2007) and associate (1994-1998) with Morgan Stanley Investment Management. Mr. Herbert earned a M.B.A. with honors from Columbia University, and a Bachelor's Degree from Villanova University. He holds a Chartered Financial Analyst certification and is a member of the Philadelphia Scholars Program Investment Committee.

About Brandywine Global
Founded in 1986, Brandywine Global Investment Management offers a broad array of fixed income, equity, and balanced strategies that invest across global markets. Brandywine Global manages $60 billion in assets as of September 30, 2014. The firm is a wholly owned, independently operated subsidiary of Legg Mason, Inc. (NYSE: LM), and is headquartered in Philadelphia with office locations in San Francisco, Montreal, Toronto, Singapore, and London.

Brandywine Global's mission is to deliver superior investment solutions and performance for our clients. To attain this mission, we listen to our clients; aim to hire, support, and retain the industry's best people; encourage independent thinking by sponsoring an open marketplace for ideas; promote a culture of integrity and partnership; and find value throughout the world that others have not yet recognized.
For more information on investments sub-advised through Brandywine Global, call your financial adviser or visit www.leggmason.com.

About Legg Mason
Legg Mason is a global asset management firm, with $707 billion in AUM as of November 30, 2014. The Company provides active asset management in many major investment centers throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

All investments involve risk, including loss of principal. Past performance is no guarantee of future results.

Investments in fixed-income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. An increase in interest rates will reduce the value of fixed income securities.

International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Asset-backed, mortgage- backed or mortgage-related securities are subject to prepayment and extension risks. Risks of high-yield securities include greater price volatility, illiquidity and possibility of default.

U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity.

EBITDA is an abbreviation for "Earnings Before Interest, Taxes, Depreciation and Amortization," a measure of a company's cash flow.

Yield to Worst (YTW) is the lowest potential yield that can be received on a bond without the issuer actually defaulting

©2014 Legg Mason Investor Services, LLC, member FINRA, SIPC. Brandywine Global Investment Management, LLC and Legg Mason Investor Services, LLC, are subsidiaries of Legg Mason, Inc.

INVESTMENT PRODUCTS: NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE
TN1414495

###