Legg Mason
Global Asset Management

Part B

Derivative Risk Statement

Legg Mason
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Contents

LEGG MASON
GLOBAL ASSET MANAGEMENT

1 Responsible Party Name

This Derivatives Risk Statement ("Statement") has been prepared by Legg Mason Asset Management Australia Limited (ABN 76 004 835 849, AFSL No. 240827, Registrable Superannuation Entity Licence number L0001250) ("Legg Mason Asset Management").

Legg Mason Asset Management provides investment management services to Australian clients and acts in various capacities, including:

(a) as a manager of funds for individually managed clients, where Legg Mason Asset Managements relationship with these clients is governed by an investment management agreement;

(b) as a responsible entity and manager of funds invested by unitholders in various Legg Mason Asset Management registered managed investment schemes, where Legg Mason Asset Management's relationship with these unitholders is governed by a constitution; and

(c) as a trustee and manager of funds invested by members in various Legg Mason Asset Management pooled superannuation trusts where Legg Mason Asset Management's relationship with these unitholders is governed by a trust deed.

The funds managed by Legg Mason Asset Management in these various capacities are referred to in this Statement as "Portfolios".

Legg Mason Asset Management has appointed an external administrator to undertake certain operational functions on its behalf in relation to registered managed investment schemes and pooled superannuation trusts described in (b) and (c) above,

The Portfolios managed by Legg Mason Asset Management include domestic equities and balanced portfolios. Where the Portfolios include domestic fixed income assets or international assets, those assets are generally managed respectively by Legg Mason Asset Management's domestic and overseas affiliates, pursuant to arms-length sub advisory agreements.

2 Objective of this Statement

The objective of this Statement is to summarise, primarily for the clients, unitholders and members referred to above, the policies Legg Mason Asset Management has in place covering the use of derivatives, the controls on their use, and the processes for assessing compliance with those controls. These policies and controls are intended to ensure proper use of derivatives.

This Statement will be reviewed by Legg Mason Asset Management regularly.

Legg Mason Asset Management's procedures require that this Statement, and any changes to it, be read, understood, and strictly adhered to by all persons responsible for managing, monitoring or implementing Legg Mason Asset Management's investment processes in relation to the Portfolios mentioned above.

The investment management of Legg Mason Asset Management's domestic fixed income, international equity and international fixed income Portfolios is carried out by Legg Mason Asset Management's domestic and overseas affiliates ("Affiliates"). Where derivatives are used, the relevant Affiliates have in place separate policies and procedures that cover the management of derivative instruments which are similar in scope to those set out in this Statement. The Affiliates policies and procedures have been reviewed by Legg Mason Asset Management. In Legg Mason Asset Management's view, the controls and procedures established by the Affiliates for the use of derivatives in domestic fixed income, international equity and international fixed income Portfolios are generally consistent with the procedures contained within this Derivative Risk Statement.

3 Definition of Derivatives

For the purposes of this Statement, a derivative is defined as: *'any contract or arrangement whose return is linked to or derived from changes in value of an underlying stock, bond, index, currency, liability or other asset (the "underlying asset" or "underlying liability")'*.

Derivative transactions include a wide assortment of instruments, such as forward, futures, options, share ratios, warrants, swaps structured notes, mortgage derivative securities and other composites.

4 Relationship to Investment Strategy of the Portfolios

The use of derivatives in a particular Portfolio is permitted only in accordance with the investment strategy applicable to that Portfolio, as expressed in one or more of the trust deed, constitution, investment management agreement, sub advisory agreement or investment mandate which governs the Portfolio (the "Governing Document").

Derivatives should not be considered in isolation, but rather as part of the investment strategy being implemented. Consideration is given to exposures arising from other assets of the Portfolio when considering derivative investments. As a result, the use of derivatives is subordinate to the investment strategy and is consistent with the objectives of the investment strategy. In addition, Legg Mason Asset Management will incorporate any particular requirements which may be agreed with a client in relation to the client's Portfolio.

The derivative risk in each Portfolio is quarantined to that Portfolio, except to the extent that one Portfolio invests in another Portfolio.

5 Purpose of the Use of Derivatives

It is Legg Mason Asset Management's policy to use derivative instruments principally for hedging, risk management, return enhancement, and to implement strategies in a more efficient manner. For most Portfolios, the derivatives principally used are exchange-traded futures and options and over the counter interest rate and credit swaps. The main objective of their use is to more efficiently create effective exposures which could otherwise be established through the physical market. Currency forwards may be used to manage exposures to exchange rates.

Derivatives often provide a cheaper and/or more liquid way to implement investment decisions. As such, derivatives help to implement investment strategies more efficiently and consequently to add value to the investment process. In some instances, such as managing exposure to volatility, derivatives may be the only efficient way to implement an investment strategy.

Except for those Portfolios in which economic leverage is expressly permitted, derivative positions are fully covered by cash, cash equivalents (including synthetic cash) or securities, as appropriate.

Legg Mason Asset Management's objectives in using derivatives in relation to Legg Mason Asset Management's Portfolios include:

- to ensure that cash flows are invested in a timely and cost effective manner;
- to effect asset allocation shifts in a timely and cost effective manner;
- to take advantage of market and price inefficiencies between futures and physical markets;
- capture valuation opportunities
- to adjust the duration of fixed income Portfolios in a timely and cost effective manner;
- to hedge or effect currency positions in diversified Portfolios; and
- to implement portfolio and hedging strategies in relation to assets of the Portfolios.

In addition to these standard uses, equity preference shares and convertible notes may be held in equity and balanced Portfolios. These may provide an attractive alternative to individual securities.

6 Restrictions on the Use of Derivatives

Legg Mason Asset Management has developed overall investment management policies which aim to ensure that all investment decisions taken are appropriate given the applicable regulatory requirements and the requirements which relate to specific Portfolios.

Internal Policies

The overall policy regarding derivative usage within Legg Mason Asset Management is encapsulated in the Legg Mason Asset Management Derivatives Policy.

In the context of the Portfolios managed by the Affiliates, derivative usage is governed by the relevant governing documents and the derivatives policies of the relevant sub-adviser.

It is Legg Mason Asset Management's policy to conform to the applicable valuation and reporting standards established by the various regulatory bodies that oversee its business, and to ensure that the status and risks of the Portfolio are disclosed to each client.

Derivatives are not to be used for speculation, where speculation is defined as derivative activity which would result in the net exposure to an asset class being outside the applicable limits imposed by its Governing Document; the Portfolio being leveraged (except where economic leverage is expressly permitted); or, the Portfolio holding uncovered Derivatives. Legg Mason Asset Management's policy is to limit the application of derivatives to those uses which will not alter the total Portfolio's risk/reward characteristics beyond the bounds established by the investment strategy or Portfolio guidelines, as applicable.

Legg Mason Asset Management and the Affiliates are required to have in place a written procedures statement governing its use of derivatives.

In relation to the domestic equity and balanced Portfolios directly managed by Legg Mason Asset Management, the procedures statement must be approved by Legg Mason Asset Management's Control Committee and should include:

- a defined purpose for the derivatives within each strategy;
- a statement on valuation including frequency and source of pricing; a statement concerning the analytic tools necessary to evaluate the individual derivatives and their impact on the total Portfolio;
- procedures for testing or measuring the derivative instruments' sensitivity to extreme changes in key risk factors including, as applicable, changes in interest rates, volatility, liquidity, credit, and overall market movements; and
- a description of how the use of derivative instruments is made clear and apparent within product descriptions and Portfolio reporting.

A list of those derivatives and strategies using derivatives which have been approved for investment is maintained. Derivatives approved by Legg Mason Asset Management's Australian Equities team ("Legg Mason Australian Equities") or any Affiliate are not necessarily approved for another, with approval being based on the demonstrated ability of Legg Mason Australian Equities or Affiliate to understand, value, deal in, account for and monitor the derivative or strategy and its impact on the Portfolio.

Any significant new strategies or investment products that use derivatives are required to be approved by the Legg Mason Asset Management's Investment Risk (Trust) Committee prior to investment.

Such approval does not automatically mean that a derivative or strategy suits a specific client's Portfolio guidelines. It is the responsibility of the Portfolio manager to verify that the strategy is appropriate for that Portfolio and consistent with its guidelines.

Client Restrictions

Clients may augment Legg Mason Asset Management's internal policies by imposing, via governing documents, additional restrictions on derivatives usage in their Portfolios. To ensure compliance with specific obligations agreed in governing documents, such obligations are incorporated into Legg Mason Asset Management's Portfolio management and client reporting procedures, as appropriate.

These procedures include:

- Portfolio manager review of the governing document, prior to any investment in the case of a new client, and following any changes to documentation in the case of existing clients;
- incorporation of relevant restrictions on derivatives use into the order generation system;
- Portfolio manager authorisation of trading prior to implementation; and
- comparison of Portfolio exposures relative to applicable limits following investment.

It is Legg Mason Asset Management's policy that Portfolio restrictions and guidelines be agreed upon and documented prior to the commencement of active Portfolio management.

Affiliate Restrictions

Legg Mason Asset Management regulates how the Affiliates use derivatives for the domestic cash, domestic fixed income and international assets through the terms of sub advisory agreements.

Where an Affiliate proposes to use derivatives, then prior to appointment, Legg Mason Asset Management will review the Affiliates' capabilities along with its policies and processes which includes review of any Derivative Risk Statement, or equivalent document. The aim of the review is to ensure that an affiliate's policies and procedures are consistent with Legg Mason Asset Management's procedures (subject to the scope of derivative use proposed as expressed in any Governing Document) and that the Affiliate has the necessary capability and risk management tools to use derivatives in the manner proposed.

Where an Affiliate proposes to change its use of derivatives or its existing policies and procedures, any change must be reviewed Legg Mason Asset Management prior to the changes being implemented for the Portfolio managed by the Affiliate.

Regulatory Restrictions

Compliance with local regulations requires management awareness of the relevant regulatory requirements. Changes in regulations or guidelines affecting the Portfolios are communicated to the relevant Portfolio managers in a consistent and timely manner.

The compliance department maintains necessary regulatory requirements and guidelines, licences, and registrations.

Portfolio documentation is prepared in accordance with regulatory requirements and is reviewed by a legal officer. The documentation is then maintained and reviewed for adequacy and completeness.

7 Risk Analysis

The use of derivatives in a Portfolio gives rise to various types of risk, many of which are not necessarily peculiar to derivatives. The use of derivatives is limited to those instruments where the associated risks can be understood, measured, and adequately controlled.

The level of risk adopted is controlled by reference to the guidelines and restrictions applicable to the Portfolio. For Portfolios managed by Affiliates, the guidelines and restrictions are incorporated in the sub advisory agreement. An internal breaches and errors policy will apply to any breach of these guidelines. In relation to the Affiliates, the sub advisory agreements require errors and breaches to be reported to Legg Mason Asset Management. All breaches and errors are reported to members of Legg Mason Asset Management's Control Committee and ultimately its Board of Directors.

For Portfolios managed by the Affiliates, general guidelines for derivative usage are agreed between Legg Mason Asset Management and the Affiliate upon settlement of the sub advisory agreement. The usage of derivatives and management of risks is at first instance managed by the Affiliates' Portfolio Manager and compliance department. Regular reporting is provided by the Affiliate to Legg Mason Asset Management on derivative usage

The primary types of risk include market risk, liquidity risk, counterparty risk, and operations risk. These are discussed in detail below unless otherwise specified, and risks and controls discussed in this part 7 below are for the domestic equity and balanced Portfolios managed directly by Legg Mason Asset Management only.

7a Market Risk

Market risk represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied option volatility or other market variables) for the derivatives or the underlying asset, reference rate or index to which the derivative relates. Such risk is created by holding any security or instrument, physical or derivative, which creates exposure to movements in prices of a security or market. A related form of market risk is basis risk, which is the risk that a derivative position will not move in line with an underlying physical position.

The market risk associated with derivatives usage is assessed prior to investment and monitored subsequent to investment by Portfolio managers and compliance.

Assessment

Prior to investment, Legg Mason Asset Management approves new investment strategies that may use derivatives. Legg Mason Asset Management (or if applicable the relevant Affiliate that manages a particular Portfolio) also approves the usage of those derivatives. The approval process includes an assessment of the market risks of the particular derivative or strategy, including any likely basis risk. Risk management and stress testing procedures also seek to ensure an understanding of the behaviour of the derivative instrument or derivative strategy in extreme market conditions.

In addition, a derivative or strategy's suitability for any particular Portfolio is considered prior to investment.

Monitoring

Depending on who manages the Portfolio, subsequent to investment, all derivative transactions are recorded either on Legg Mason Asset Management's or the relevant Affiliates central accounting system, together with other Portfolio holdings data. Market exposures, including the effect of derivatives, are monitored for each Portfolio relative to applicable limits, for instance, asset class ranges, available cash, or the market value of the Portfolio. Derivatives are marked to market, and delta-adjusted where appropriate, in accordance with industry practice. Fixed income derivative exposures are analysed by the relevant Affiliates including in terms of both dollar value and duration.

The monitoring process also aims to ensure that the relevant Portfolio is not being leveraged (except where economic leverage is expressly permitted) and does not hold uncovered derivatives. Derivative positions can be covered by any or all of cash, cash equivalents (including synthetic cash) or other securities as appropriate and expressly permitted in the Governing Documents.

Where derivative instruments or derivative strategies are used which may have a significant impact on a Portfolio's value, stress testing procedures are repeated at intervals appropriate for the sensitivity characteristics of that instrument or strategy.

Valuation

In the case of more complex derivatives or strategies, valuation, modelling and risk measurement or stress testing information is required to be provided by the relevant Portfolio manager to their supervisor and, if necessary, the Control Committee.

7b Liquidity Risk

There are generally two types of liquidity risk. The first is the risk that a responsible party may not be able to, or cannot easily, unwind or offset a particular position at or near the previous market price, because of inadequate market depth or because of disruptions in the market place. The second is the risk that the Portfolio will not be able to meet its financial obligations resulting from its derivative activities, such as margin calls on futures contracts.

Liquidity of Positions

The liquidity of derivative positions is taken into consideration in the investment process at two stages: at approval and then following investment.

Adequate liquidity is a requirement for approval to invest in an exchange-traded derivative instrument. Standing approval has been granted to invest in certain derivative contracts trading on certain approved exchanges which meet minimum liquidity requirements. Other types of derivatives must receive specific approval from Legg Mason Asset Management, and (in the case of Portfolios managed by an Affiliate) the applicable Affiliate on a case-by-case basis.

Following investment, a regular comparison is made of positions held in all exchange-traded derivative contracts, by Portfolio and in aggregate across all Portfolios, with the daily trading volume and total open interest on the exchange in that contract. Reports containing this information are prepared by the Operations Group and provided to the relevant Portfolio managers for review. Exposures to non-exchange traded securities are also shown on these reports.

Capacity to Meet Obligations

The capacity of a Portfolio to meet any financial obligations arising from its derivative positions is assessed by reviewing the available cash or cash equivalents remaining in the Portfolio after recognition of the obligations arising from the derivatives.

7c Counterparty (Credit) Risk

Counterparty risk is the risk that a counterparty (the other party with whom a derivatives contract is made) will fail to perform contractual obligations (i.e. default in either whole or part) under a contract and that this failure occurs at a time when the contract is in the money (i.e. has a positive market value) to the Portfolio which holds the derivative contract. This is also sometimes referred to as "credit risk".

Clearing Brokers and Cash Trading Counterparties

For domestic equity Portfolios, Legg Mason Asset Management, is responsible for approval of counterparties and limits.

For a Portfolio managed by an Affiliate, the Affiliate is responsible for the approval of counterparties and limits provided the affiliate discharges this function in accordance with its process previously disclosed to Legg Mason Asset Management.

All counterparties are assessed (whether by Legg Mason Asset Management or relevant Affiliate) as to their creditworthiness, financial strength, operational capabilities, etc. Credit limits are established in accordance with the relative credit strength of each counterparty and are subject to an ongoing review.

The aggregate exposure to each counterparty is monitored against these limits on a regular basis. Where Portfolio-level credit limits have been agreed with clients, Portfolio management procedures include having regard to such limits and monitoring exposures as applicable.

Documentation

Counterparty documentation is obtained where appropriate, as is client documentation. The review of such documentation seeks to ensure that the contracts are sufficient and enforceable and that the counterparty has the legal power to enter into the contract. The Compliance Manager also seeks to ensure that all relevant regulatory requirements are complied with in the context of Legg Mason Asset Management's dealing in derivatives.

Original legal documentation is stored securely on-site and copies are stored off-site for contingency planning purposes.

For Portfolios managed by an Affiliate, the above documentation is normally maintained and stored by the Affiliate.

7d Operations Risk

Operations risk is the risk that deficiencies in the effectiveness and accuracy of information systems or internal controls will result in a material loss. Such material loss might, for example, be caused by human error, system failures, inadequate procedures, or a lack of internal management controls.

The strong segregation of duties is the first pillar in Legg Mason Asset Management's internal control approach. Operations risk is also addressed by the prior establishment of capabilities and the disciplined maintenance of operational procedures and control manuals.

Capability and Accuracy

Legg Mason Asset Management, in assessing a new derivative, considers an ability to effectively handle the derivative or strategy to be a pre-requisite for approval to invest. This includes the ability to price, account for in Portfolios, and settle the derivative instrument or strategy.

The risk of losses from system failures is minimised by thorough system backups and disaster recovery (contingency) procedures, which aim to ensure the maintenance of critical data availability.

Valuation Standard

Exchange-traded derivatives are priced and reconciled in a manner that is consistent with current industry practice. Prices for exchange-traded derivatives are sourced from the relevant exchange.

Currency forward pricing (where required) is sourced from an independent third party.

If held, over-the-counter derivative instruments, are generally priced by the broker/dealer counterparty to the trade, with periodic checks..

Segregation of Duties and Management Controls

The definition and documentation of all roles and functions seeks to ensure an appropriate segregation of duties. Additionally, Legg Mason Asset Management aim to ensure that individuals are not able to control all parts of any process without adequate supervision.

Broadly, duties are segregated into the areas of Portfolio Management and Operations. The trading function is supervised by Portfolio Management, as is order generation. The administration of accounts and settlement of transactions is handled by the Operations Group in conjunction with the custodian and, for applicable Portfolios, the external administrator.

Legg Mason Asset Management's internal auditors are functionally separate from Legg Mason Asset Management.

A transaction will not record against a Portfolio unless it is appropriately authorised.

Portfolio positions are reconciled to the Clearing Broker and against the custodian's records.

Portfolio account details are controlled by Operations in conjunction with compliance. No new accounts or changes to existing accounts either internal or external can be recorded without the appropriate authorisation.

Where an Affiliate is appointed to manage a Portfolio, the Affiliate is expected to have similar Operational Risk controls in place. A review of an Affiliate's controls forms part of Legg Mason Asset Management's due diligence on the Affiliate prior to its appointment.

8 Currency

Foreign currency exposures predominately arise in the context of the international assets managed by Legg Mason Asset Management's overseas Affiliates on behalf of Legg Mason Asset Management. Such currency exposures are considered as part of the investment strategy of the relevant international Portfolio, and are generally managed by the office responsible for that particular investment strategy.

As for other types of currency exposure, the use of currencies is required to be consistent with the investment strategy applicable to the relevant Portfolio. Procedures undertaken to ensure this is the case include review.

Currency hedging to manage exposures to exchange rates arising from an international investment, or to implement a particular asset allocation strategy, are also undertaken by Legg Mason Asset Management.

9 Personnel Management

Expertise

The procedures set by the Legg Mason Asset Management (through the Control Committee) aim to ensure, among other things, that derivatives are not used unless they are understood by the relevant senior management, Portfolio managers, traders and operations staff.

Authorisation

Segregation of Portfolio management and operations functions creates a structure which helps ensure that staff are only authorised to carry out duties within their designated expertise.

Derivatives can only be traded by traders under the supervision of a Portfolio manager. All Portfolio managers and traders have the appropriate experience, skill levels, and degrees of specialisation. Operations staff have the appropriate skill supervise the proper recording and monitoring of, positions.

Appropriate authorisation of a transaction is a requirement to accept that transaction for processing.

Continuing Education

Standards of expertise are maintained via a number of different avenues of training.

Staff participate in a variety of externally-managed educational programs. These may include, where appropriate, broad range of discrete graduate courses, continuing education programs and online training providers.

Staff also participate in internal training sessions. The training program combines a rigorous mix of academic content and practical applications.

Legg Mason Asset Management encourages staff to undertake relevant studies in the interests of maintaining a level of professional expertise in the face of the continually changing investment environment.

This Derivative Risk Statement is readily available to all relevant staff. The requirements relating to this Derivative Risk Statement are reinforced in Legg Mason Asset Management's Compliance Manual and are the focus of a regular program of training.

Remuneration Strategies

Remuneration policies relate salary to job performance. All Staff are required to consistently perform their job functions in a capable manner, with the three primary criteria being productivity, quality of work, and understanding of job responsibilities. Emphasis is not placed on results achieved in individual transactions or investments but rather on consistency of performance while adhering to standards regarding core values such as ethics, respect, teamwork, development, merit and excellence.

An Affiliate is expected to have similar Personnel Management controls in place.

10 Assessment of Controls

Internal procedures cover the control and assessment of asset management activities, including derivatives usage. There are also several formalised forums which ensure that derivatives usage is consistent with internal processes and any governing document.

- The Investment Risk (Trust) Committee is a delegate committee of Legg Mason Asset Management's Board of Directors. This Committee and (in the case of Portfolios managed by an Affiliate) in conjunction with the applicable Affiliate, is responsible for setting policies and guidelines for the use of derivatives for each Portfolio (e.g. setting Credit Limits etc). This includes any changes proposed from time to time by the relevant portfolio manager or Affiliate. The committee is also responsible for reviewing Legg Mason Asset Management's general use of derivatives, including a periodic review of derivative positions in all Portfolios.
- The Control Committee is a delegate committee of Legg Mason Asset Management's Board of Directors. This Committee or (in the case of Portfolios managed by an Affiliate) the applicable Affiliate, is responsible for reviewing procedures for derivatives use. The Control Committee is also concerned with all matters raised by internal and external auditors and with addressing any other operational or control issues, including those related to derivatives. The Control Committee or (in the case of Portfolios managed by an Affiliate) the applicable Affiliate monitor adherence to local derivatives procedures and reports any significant issues to the Board
- The Legg Mason Global Product Committee is responsible for approving new products or significant Portfolio strategies, including those which incorporate derivative instruments. The Compliance Manager is included in this forum with specific responsibility for reviewing the

control and risk management aspects of proposed new products.

- The Account Review Committee reviews Portfolios at least annually to monitor compliance with the governing documents and policies.

Memberships of the above committees comprise experienced professionals drawn from different functional areas of the organisation.

Internal control systems also include a compliance reporting process which ensures that any errors or incidents which occur are constructively brought to the attention of senior management and addressed promptly and appropriately. Progress on action required to rectify or prevent recurrence of the error is monitored by the Control Committee.

Internal and external auditors periodically assess the control environment. Procedures are in place to monitor the results of these audits, and to ensure recommendations are implemented on a timely basis.

External regulatory authorities including the Australian Securities and Investment Commission and the Australian Prudential Regulation Authority also perform assessments of the control environment.

Legg Mason Asset Management recognises the importance of a control and support infrastructure. Legg Mason Asset Management's policy is to design and adapt Legg Mason Asset Management's systems in line with current and future use of derivatives in client Portfolios. Legg Mason Asset Management are committed to broadening Legg Mason Asset Management's capabilities and controls to keep pace with an expanding use of derivatives. Legg Mason Asset Management review Legg Mason Asset Management's policies and procedures in an effort to keep current with the evolving derivatives markets and to ensure that Legg Mason Asset Management use derivative instruments appropriately and in the best interests of Legg Mason Asset Management's clients.

The Investment Risk (Trust) Committee, on behalf of Legg Mason Asset Management's Board of Directors, has approved this Part B Derivative Risk Statement and attest to its sufficiency.

The Board of Directors of Legg Mason Asset Management monitor ongoing compliance with the Risk Management Statement and its continued adequacy via its compliance procedures which include a regular confirmation by relevant staff of compliance with all applicable procedures, including the Risk Management Statement.

11 Audit

Legg Mason Asset Management's external auditor will sign off on an annual basis that this Statement exists, that the major procedures laid down in the Statement have been followed and that any changes have been approved. The audit will be completed in accordance with Australian Auditing Standards and referenced as appropriate in letters of comfort.

12 Reporting to Trustees

This Statement will generally be provided to the trustee boards of Legg Mason Asset Management's superannuation fund clients. The Statement will be reissued if there are any changes to the Statement.

Periodic client reporting aims to be accurate, complete, and timely. Aggregate asset exposures including the effect of derivatives are presented in monthly and quarterly valuation reports to trustees. While exposures arising from option holdings are generally delta-weighted in these reports, Legg Mason Asset Management note that delta-weighting may not always be fully appropriate and consideration is given to other disclosures that may be necessary.

Portfolio performance is reported on a regular basis and in a consistent manner. Portfolio performance includes the impact of any derivatives held during the period. As regards its performance measurement procedures Legg Mason Asset Management claims compliance with the Global Investment Performance Standards (GIPS). Performance is calculated and monitored independently of the Portfolio manager of the Portfolio. The Portfolio's performance is measured and reported against an appropriate benchmark.

Legg Mason Asset Management will report to the trustee boards of its superannuation clients when in its professional judgement there is a significant occurrence in relation to the use of derivatives by Legg Mason Asset Management.

13 Date of Approval of Part B Derivative Risk Statement

This Part B Derivative Risk Statement was approved by Legg Mason Asset Management on 21 July 2009.