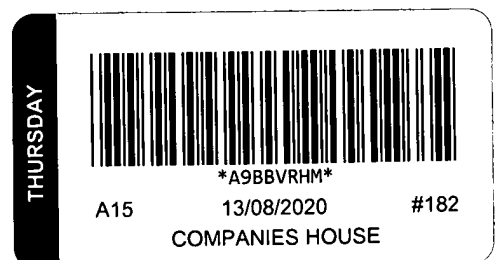


WESTERN ASSET MANAGEMENT COMPANY LIMITED

(Registered No. 2479672)

**Annual report and financial statements
for the year ended 31 March 2020**



WESTERN ASSET MANAGEMENT COMPANY LIMITED

Annual report and financial statements for the year ended 31 March 2020

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WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report**for the year ended 31 March 2020**

The Directors present their strategic report for the year ended 31 March 2020.

Review of the business

Western Asset Management Company Limited's ("the Company") key performance indicators are as follows:

	<u>2020</u>	<u>2019</u>
	\$000s	\$000s
Turnover	76,185	73,349
Profit before tax	12,238	6,350
Assets under management ("AUM")	31,627,974	35,911,475

The Company is an investment manager located in London, United Kingdom ("UK") principally providing investment management services globally to both external clients and to clients of its affiliates (collectively "Western Asset"). The Company is authorised by the Financial Conduct Authority ("FCA") and makes its Pillar 3 disclosures on its website – www.westernasset.com.

During the year the Company's assets under management ("AUM") declined compared to the previous fiscal year. Negative net flows for the year of approximately US\$2.2 billion were driven by inflows of US\$2.1 billion offset by outflows of US\$4.3 billion. New mandates for Global Credit and additional flows for global and credit mandates were more than offset by outflows and losses from Global Sovereign, Global Total Return and Global Inflation-linked and the termination of UK and Euro aggregate mandates. Positive market effects due to strength in credit and government bonds were partially offset by negative currency effects as the British Pound continued to decline on Brexit related concerns.

Participation in new business searches continued throughout the year including for mandates from some of the new UK local authority pools. The Company successfully shortlisted to the final stage of US and global credit as well as MAC and GMS mandate searches. Significant work was also conducted in broadening and deepening the Company's Environmental, Social and Governance ("ESG") credentials, including the ability to monitor portfolio "carbon footprints" and corporate engagement reports and this was rewarded with new searches during the year.

Western Asset participated with Legg Mason and the other 8 affiliates to implement a new financial platform (Common Financial Platform) with the goal of having, where possible, the same processes, controls and systems, resulting in workload efficiencies. New client relationship management and graphics platforms were adopted by the client service team to help optimise activities in support of client reporting, business development and graphics material production. Human Resources helped to facilitate externally provided training for staff in communication and presentation skills as well as advanced Excel skills. The Company's Wellness Committee was established and organised a number of events during the year.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (continued) **for the year ended 31 March 2020**

Review of the business (continued)

Significant effort was devoted to a project to secure alternative premises for the Company as the previous lease terminated May 2020. While a number of buildings were considered, a decision was ultimately to remain in the existing building (10 Exchange Square) but to move from the 10th floor to a refurbished 11th floor. In light of the uncertainty related to COVID-19, the refurbishment work has been suspended. At 31 March 2020, the dilapidations provision at 10 Exchange Square for floors 9 and 11 was written down in full and increased for floor 10 following a review.

Section 172 statement

The Directors are fully aware of their responsibilities to promote the success of the company for the benefit of its members as a whole in accordance with s172 of the Companies Act. The content in the stakeholder engagement statement highlights key points in this area.

Stakeholder engagement statement

The Directors have taken account of the matters set out in s172(1) (a) to (f) of the Companies Act 2006, when performing their duties, and in so doing have regard (amongst other matters) to the following factors:

Long-term consequences of decisions

The Company's business plans have been developed in conjunction with Western Asset's broader strategic initiatives and with the market and competitive environment in mind. Western Asset's primary objectives along with key priorities reflect the Company's overall business strategy. Accordingly the Directors consider the following long term initiatives:

- Have a superior investment performance track-record over the long-term, relative to peers and benchmark and within client objectives and risk tolerances.
- Be recognised as providing outstanding client experiences and be viewed by our clients as a strategic thought partner.
- Be highly regarded, with a clearly perceived positioning, and be well-known among institutional and retail investors in every geography and market segment we operate in.
- Offer a broad range of fixed income products across traditional, specialised, unconstrained and non-traditional areas, in any currency base, effectively supporting client needs. Adhere to an investment philosophy of long-term fundamental value using multiple diversified strategies.
- Operate across a global footprint, leveraging Western Asset's size and global capabilities across offices to the benefit of clients.
- Achieve excellence in all areas of the Company, with collective responsibility for quality and client experiences.
- Attract and retain top talent with cultural fit at all levels in the organisation.
- Maintain a culture of ethics, team-orientation and collaboration.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (continued)

for the year ended 31 March 2020

Stakeholder engagement statement (continued)

The interest of Company employees

Equal Opportunities/Diversity & Inclusion

Western Asset is an equal opportunity employer. The Company is committed to employing qualified individuals without regard to age, disability, gender reassignment, marriage and civil partnership status, pregnancy and maternity status, race, religion or belief, sex, sexual orientation (all “protected characteristics”) protected by law. Western Asset conducts all employment-related activities on a non-discriminatory basis and in full compliance with statutory requirements.

Compensation Philosophy

At Western Asset, one compensation methodology covers all employees, including investment professionals. Standard compensation includes competitive base salaries, generous employee benefits, incentive bonus and a retirement plan which includes an employer match and discretionary profit sharing. Incentive bonuses are usually distributed in May.

Benefits & Wellbeing

The Company provides a full and comprehensive package to support the health and wellbeing of all staff. This covers a range of benefits including pension, life assurance, long-term disability, medical insurance, travel insurance and a fitness allowance. Other online platforms are available for staff to access further support on health and wellbeing.

Code of Ethics

Western Asset's Code of Ethics, which is bundled with the Company's Compliance Manual, is issued to all employees. The Manual is maintained by the Company's Legal & Compliance Department and is a compilation of policies and procedures developed through collaboration between Western Asset's functional business areas, the Chief Compliance Officer and/or the Legal & Compliance Department. The Manual is updated in consultation with the appropriate functional groups on an annual basis or more often as needed. It must be read and signed by each employee when hired and renewed annually thereafter. Western Asset monitors compliance with the Code of Ethics in the Regulatory Affairs Group of the Legal & Compliance Department making use of automated systems tools where possible.

WESTERN ASSET MANAGEMENT COMPANY LIMITED
Strategic report (continued)
for the year ended 31 March 2020

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Stakeholder engagement statement (continued)

Business relationships

Clients

Dedicated client service is a hallmark of Western Asset. Western Asset believes its primary responsibility to clients is to provide our unsurpassed investment expertise in identifying investment strategies based on their specific needs. To complement that effort, Western Asset provide an exemplary level of client service and assign each client their own client service executive and supporting team.

Client service executives review client objectives and risk tolerances, communicate investment strategies, monitor portfolio changes, support reporting requirements and respond to requests for information and research. They are organised into teams by client type and region, and work closely with portfolio managers to meet individual client needs.

Suppliers

The Company's preferred suppliers provide services for technology, human resources, print and mail services, facilities management, travel and professional services. The Company takes reasonable steps to ensure suppliers comply with standards, such as those relating to environmental responsibility, modern slavery, data protection, human rights and ethics.

Regulators

The Company is authorised and regulated in the UK by the FCA and carries out regulated activities as permitted under Financial Services and Markets Act 2000 ("FSMA"). The scope of the regulated activities undertaken by the Company is set out in the Company's Scope of Permissions Notice. The Company maintains compliance with Markets in Financial Instruments Directive ("MiFID II"). The Company also has an outward passport for discretionary management into most European Union countries. In addition to being authorised and registered by FCA, the Company is also regulated by the Securities and Exchange Commission ("SEC") in the US and maintains compliance policies and procedures reasonably designed to prevent and detect violations of US securities laws, the Korea Financial Supervisory Commission, and the Australian Securities and Investments Commission.

Compliance with the FCA's Senior Manager and Certification Regime ("SMCR") assists the Company in fostering business relationships in a compliant manner, treating clients fairly and maintaining open and cooperative relationships with its regulators. The senior managers of the Company are specifically charged with ensuring that any relevant information which the FCA would reasonably expect notice of is disclosed appropriately and timely.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (*continued*)

for the year ended 31 March 2020

Stakeholder engagement statement (*continued*)

Business relationships (*continued*)

Her Majesty's Revenue and Customs ("HMRC")

The Company abides by any guidelines or recommendations issued by tax authorities, which are intended to supplement legislation. The Company reviews its tax policies and objectives annually and will update its annual Tax Strategy as appropriate. The Company aims to build constructive relationships with tax authorities in the jurisdictions in which it operates. This is achieved by: being open, transparent and cooperative in any dealings with HMRC.

Impact on community and environment

Western Asset considers a wide range of macroeconomic and geopolitical factors in order to form an outlook for the challenges and opportunities facing sovereigns, industries and companies. These considerations include analysing how raw material consumption, climate change, demographics and socioeconomic development will affect income, wealth and global growth in the future.

ESG investing has been a key tenet of Western Asset's long-term fundamental value philosophy for many years. Western Asset seeks to invest in a diversified set of opportunities that will deliver superior risk-adjusted returns for its clients over the long term. Western Asset's increased efforts on ESG integration, analysis, engagement and reporting and growing collaboration with industry initiatives is raising the Company's credibility with prospects and clients. Some clients are moving to explicitly include ESG (including lower carbon) considerations in their mandates and there is growing evidence of clients allocating to mandates with explicit ESG parameters and reporting requirements.

Social factors can also impact consumers' perception of an issuer as well as the issuer's operations. Western Asset considers a number of social factors, including employee relations, workplace safety practices, consumer protection policies, recruiting and talent development, and community relations. Social considerations are particularly important in Western Asset's evaluation of sovereign issuers, where demographic composition, socioeconomic trends and income distribution can affect the growth trajectory of a country.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (continued) for the year ended 31 March 2020

Stakeholder engagement statement (continued)

Reputation for high standards of business conduct

Western Asset's values are trust, honesty, integrity, diversity, teamwork, mutual respect, and personal responsibility. These values, which enrich and enhance Western Asset's efforts to excel, for its clients, its people, and its organisation, are communicated to a prospective employee at the very beginning of the relationship, and shared and applied throughout the Company on a continuous basis.

The following are Western Asset's organisational pillars, which summarise the behaviors and practices that drive the Company's success:

Western Asset puts its clients first in everything the Company does. Western Asset listens, understands and seeks to help its clients succeed. By meeting or exceeding clients' expectations, Western Asset's success will follow.

Western Asset is globally integrated. Diversity of opinion and specialists based in global investment centers, each concentrating on a specific field of expertise, meaningfully broaden the Company's opportunity set and improves its ability to diversify investments. Western Asset thinks and acts on a global basis.

Western Asset has a team-based culture. At all levels of the organisation, professionals around the globe continuously communicate information, share investment ideas and collaborate on strategy, working together to enhance the quality of the Company's investment thinking and decision-making.

Western Asset is dedicated to active fixed-income. Western Asset believes that by dedicating all of its resources to active fixed-income the Company can provide superior investment capabilities and service to its clients. Western Asset believes that active, value-driven investing can add significant return and reduce portfolio volatility over a market cycle.

Risk management is fundamental to how the Company manages assets. Western Asset fosters a culture in which risk management is a critical component of successful portfolio management. Integrating risk management inputs into the portfolio construction process as well as the independent audit of portfolio risks strengthens its effectiveness. Robust communication and escalation procedures underpin the independence and transparency of risk management.

Shareholder management

The Company is a wholly owned subsidiary of Western Asset Management (Cayman) Holdings Limited, which is ultimately a wholly owned entity of Legg Mason, Inc. Accordingly, the following controls are in place with group stakeholders:

- Regular communication and collaboration between all levels of management at the Company and Western Asset's headquarters in Pasadena, CA.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (*continued*) for the year ended 31 March 2020

Stakeholder engagement statement (*continued*)

Shareholder management (*continued*)

- Head of London Operations has regular communication with Western Asset's Chief Executive Officer.
- Regular communication between executive management of Western Asset and Legg Mason to discuss relevant strategic initiatives and financial matters.
- A senior Legg Mason executive is a member of the Company's Board of Directors.
- Western Asset and Legg Mason have the necessary financial resources to address and weather significant events.
- Western Asset and other Legg Mason affiliates operate autonomously with different brands and markets. Thus the impact of an issue at Western Asset or a Legg Mason entity on the larger group is likely to be muted.

The Directors are aware of their duties under Section 172 of the Companies Act 2006 to promote the success of the Company with a long-term view to have a beneficial impact in reaching key decisions. When taking decisions, the Directors look to act in the interests of stakeholders as a whole.

Regulatory

Extensive work was carried out ahead of the implementation of the Senior Managers and Certification Regime ("SMCR"), effective 9 December 2019. SMCR replaced the FCA's Approved Persons regime. Robust compliance continued to be effected within the framework set out by the FCA on corporate governance, enterprise risk management and internal audit schedules.

Brexit

Brexit contingency planning also continued to occupy a significant amount of time during the year. A Brexit impact analysis was conducted in respect of the Company's ability to continue to conduct business in the EU. Plans were drawn up for contingencies to manage impacts on the Company's regulatory ability to market into and manage mandates in the EU if the UK left the EU on 31 January 2020 without a deal. While the continual delays in the implementation of Brexit have resulted in uncertainty, the granting of exemptions and waivers from licenses by a number of European jurisdictions, reduced the immediate risk. The UK stopped being a member of the EU on 31 January 2020, entering into an 11 month transition period. The focus has now moved to 31 December 2020 when the transition period will end and the UK will leave the EU customs union and single market. Building on its earlier work, the Company has identified a number of options that could be adopted after the end of the transition period expected in December 2020. The Company expects to make use of the temporary permission regimes, seek notional licensing exemptions or limited institutional licences where available in relevant EU countries, and leverage Legg Mason's MiFID licensed entity in Ireland where such exemptions or licenses are not available. The Company does not anticipate risks to existing assets contracted with clients domiciled in Continental Europe and remains confident that mandates are unlikely to be at risk after expiry of the transition period.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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**Strategic report (continued)
for the year ended 31 March 2020****Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks.

Market risk

The Company's appetite for Market Risk is low. As a Limited Licence BIPRU Investment Firm, the Company conducts no proprietary trading and is not licensed to conduct such activity. Any exposures to market risk are mitigated to the extent reasonably possible. The Company seeks to reduce exposure to changes in foreign exchange rates through the use of currency hedging. The Company is also exposed to a minimal amount of market risk through its investment of cash in highly rated money market funds. Any exposure to market risk outside the areas noted above would require approval of the Company's Directors.

Operational risk

It is Western Asset's objective to minimize operational risk as much as is reasonably feasible. The Company's appetite for operational risk events that affect Western Asset's reputation or could significantly impact client confidence is low.

A combination of a top down and bottom up approach is in place to monitor and assess the risks the Western Asset is actively taking on or is faced with due to its line of business. From the top down, the Board, senior management and functional lines of business continually assess current and planned strategic, operational and financial activities in conjunction with their associated risks. Regular weekly, monthly and quarterly reporting provides management with detailed information about risk exposure and experience. All operational errors are reported to management on a weekly basis.

The Company produces management information at a regular cadence related to business and operational risks. The Company has set risk tolerance limits for operational errors. Any indicators that show an increase in the number of operational errors is viewed outside Western Asset's risk appetite and immediately escalated.

Financial risk management

The Company's business involves the management of a significant number of client fixed income portfolios. Accordingly, the Company faces market risk and performance risk in relation to the management of these portfolios.

The Company has no financing arrangements (operating liabilities are excluded), but, in common with other asset managers, bears certain risks relating to market volatility. Further information is given in note 15. The Company manages investments for clients but does not consider the investment management fees it charges for its services to carry any significant credit risk. The Company has in place various controls and systems to mitigate the risks within client portfolios.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (*continued*) for the year ended 31 March 2020

Principal risks and uncertainties (*continued*)

COVID-19 risk

The Company has been impacted by COVID-19 to the extent that performance was lower than anticipated for Q4 FY20, all employees were working from home as at 31 March 2020 and delays are anticipated to the fit out of the 11th floor at 10 Exchange Square. The sharp reversal in risk appetite is expected to impact the Company's activities in coming months though there are strong prospects for eventual recovery in economic activity and in portfolio performance on any clearing of the COVID-19 uncertainty. Utilisation of the Company's Business Continuity Plans ("BCP") plan to invoke working from home practices has sustained employee productivity while retaining all staff. The impact of COVID-19 to the Company will be continually monitored by the Directors.

Liquidity risk

The Company has implemented a liquidity monitoring policy and maintains cash balances to ensure the Company has sufficient available funds for operations and to meet FCA requirements. Counterparty risk on cash balances is managed by the board setting guidelines on cash balances maintained at any one financial institution or money market fund and imposing a restriction on the investment of surplus cash in less liquid vehicles.

Foreign exchange risk

The Company earns fees in foreign currencies from various international clients. The Company maintains bank accounts in Sterling, US dollars and Euros. Foreign currency risks exist on fees payable to the Company in other currencies. Management employs a policy to manage foreign exchanges exposure and, where appropriate, hedges these risks using currency forward contracts.

Regulatory risk

The Company has operated in an increasingly demanding regulatory environment. The Company has a low appetite for regulatory risk and takes all reasonable steps, including investing in qualified staff and system resources in an effort to mitigate this risk. The Company operates a strong compliance control framework, which includes a compliance monitoring program, compliance training for all staff, competence appraisals and ongoing reviews of regulatory requirements.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (continued)**for the year ended 31 March 2020****Principal risks and uncertainties (continued)***Cyber security risk*

Western Asset's Information Security Program is designed to address cybersecurity risks that may lead to the compromise of technical infrastructure. This may result in the exposure of data through theft or accidental disclosure, the loss of data integrity through modification or the unavailability of systems.

Western Asset has deployed multiple controls to minimize risk, including the following:

- **Monitoring and Alert Controls:** Western Asset employs advanced network, system and user-Preventative Controls: Western Asset employs network-boundary controls including firewalls and DMZ layers to stop threats from penetrating our network. Western also aggressively filters potentially-malicious web traffic and operates host-based controls like anti-virus to stop malicious code from executing on our systems. An access management program strictly based the principles "need to know" and "least privilege" controls user access privileges. Physical Controls are implemented in our offices and data center, along with disabling USB and removable media access on workstations.
- based monitoring and alerting capabilities, which oversees traffic, inspecting and correlating unusual events and patterns. This system is in operation 24/7 and also takes in information from external intelligence feeds to incorporate the latest threat landscape data from our partners and industry peers. Ongoing vulnerability assessments are conducted to identify weaknesses and ensure that equipment and software is up-to-date.
- **Governance, Training and Vendor Management:** Western Asset program is based on industry standards and control sets are built to meet leading practices. The Company conducts regular training with employees to help them identify security threats and test their ability to detect security threats, including those received via email. The program undergoes regular audits and conducts penetration testing. Western conducts on-going and regular due diligence assessment of third-party cybersecurity risk.

Enterprise Risk oversees a number of activities related to the Company including the governance of the ICAAP process and BCP. In anticipation of a potential move to working from home, Enterprise Risk oversaw an extensive review and testing of remote working. This in turn helped smooth the transition to working from home in Q4 FY20.

A change to the stability in the investment team remains a key risk. This risk could be exacerbated by a continuation or worsening of market turbulence that negatively impacts portfolios' performance and volatilities. A key business uncertainty is the impact on the Company's existing products of secular shifts in the asset management industry to passive and low volatility strategies and to alternative and illiquid credit asset strategies. Our focus remains on offering clients a comprehensive and competitive suite of unconstrained strategies while assessing opportunities for making strategic investments or acquisitions in private debt boutiques.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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**Strategic report (continued)
for the year ended 31 March 2020****Future Outlook**

In the coming year, the Company will continue to focus on portfolio performance and risk management with a combined emphasis on both growth facilitating activities and client retention.

The sharp reversal in risk appetite as a result of the COVID-19 crisis is expected to impact the Company's activities in coming months and until there is a return to normal business operations, it will be difficult to assess the effect on the Company's growth projections. The severe volatility and disruption to normal business activity (with all the Company's staff and the majority of its clients working from home as at 31 March 2020) is expected to limit client activity in terms of new searches in coming months. To date, redemptions have been relatively modest and related to the rebalancing of clients' strategic asset-allocation towards equities or for risk reduction reasons. As risk appetite recovers with greater confidence that the medical crisis is abating, new business search activity is expected to resume and investors are likely to gradually return to higher risk/income funds in light of the poor returns from cash and other risk-free investments.

While liquidity in markets was impaired during March 2020, the liquidity and other measures implemented by central banks globally has improved conditions and the Company does not anticipate any issues in meeting outflows and redemptions in client portfolios or funds. The risk of outflows from global mandates remains muted for now given non-government fixed income sector valuations have improved. Looking further out, there are risks that changes in asset allocation preferences, attrition by long tenured clients and shift to lower volatility/"buy and maintain" type strategies may result in mandate closures and outflows from traditional aggregate and credit mandates and funds.

There are strong prospects for eventual recovery in economic activity and in portfolio performance on any clearing of the COVID-19 uncertainty. The need for adherence to robust and forward looking risk management is paramount. Longer dated track records are positive for many strategies but a number of long tenured clients are lagging benchmarks since inception, raising their vulnerability to termination. Client, prospect and consultant scrutiny will remain high on all performance metrics. This reinforces the importance of continued focus on maintaining a rigorous approach to portfolio construction to meet clients' return objectives within their risk tolerances. The growing importance of ESG reporting and integration to pension funds and other asset owners will increase the need to invest further in ESG research, analysis and portfolio integration and the documentation of engagement activities.

A focus on strict adherence to the Company's fiduciary duties to clients and regulators remains paramount. Errors and breaches during the year remained low and efforts continue to find robust ways further to reduce the scope for errors in transactions and trading. MiFID II regulation requirements require ongoing monitoring especially for best execution and costs and charges reporting. Moreover, SMCR requires both senior managers and other staff to ensure adherence to Individual and to fitness and propriety standards. The Company will conduct regular training on SMCR and assess fitness and propriety before Certified Persons take up their roles and on an annual basis from October 2020. Moreover, as part of their duty of responsibility, the Company's Senior Managers will need to demonstrate that they are taking 'reasonable steps' to avoid a breach of regulatory requirements occurring or continuing.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Strategic report (continued) for the year ended 31 March 2020


Post Balance Sheet Events

In February, 2020 Franklin Templeton announced the purchase of Legg Mason, and its affiliates, including Western Asset. Western Asset will retain full investment independence and organisational autonomy. Franklin Templeton recognises the importance of maintaining Western Asset's independence; one of Franklin Templeton's stated goals is to ensure stability and continuity for all Legg Mason's affiliates' clients and employees. Change of ownership will take place once the deal closes, expected to be in the second or third quarters of fiscal year ending 31 March 2021. The Company has informed all clients of the ownership change and has forwarded formal notices and/or requests for consents to clients where required by regulation or contracts.

The Company signed a 10 year lease for office premises which was effective May 2020, and under the terms of which the Company has an initial rent free period to 31 January 2022. The rent payable under the lease will be subject to review in May 2025.

While business plan goals and objectives are primarily long term, the current extraordinary circumstances relating to COVID-19 mean that the Company will continually assess the business plan and budget for the coming financial year in light of the current market conditions and their expected impact on the Company's business.

By order of the board

DocuSigned by:

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Kate Blackledge
Secretary
10 Exchange Square
Primrose Street
London EC2A 2EN

Date: June 18, 2020

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Directors' report

for the year ended 31 March 2020

The Directors present their report and the audited financial statements for the year ended 31 March 2020.

Results

The profit for the year, after taxation, amounted to \$9,508,570 (2019: \$5,077,619)

Net assets at 31 March 2020 were \$50,354,360 (2019: \$55,845,790)

Dividends

During the year, an interim dividend of \$15 million was declared and paid (2019: \$10 million). The Directors do not recommend the payment of a final dividend (2019: \$nil).

Directors

The Directors of the Company as at 31 March 2020, all of whom have been directors for the whole of the year ended on that date are listed as follows:

T. Merchant
C. Ruys de Perez
M. Zelouf

Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Directors' report (*continued*) for the year ended 31 March 2020

Future developments

In the coming year, the Company's focus will remain on portfolio performance and risk management. Detail of future outlook is further described in the Strategic report.

Stakeholder engagement statement

The Directors are focused on strong stakeholder relationships in creating long term value, maintaining business relationships and creating better environments. Detail of stakeholder engagement is further described in the Stakeholder engagement statement of the Strategic report.

Liability insurance for Company's officers

As permitted under section 234 of the Companies Act 2006, the Company has maintained insurance coverage for the Directors and officers against liabilities in relation to the Company for the entire year and up to the date of signing the financial statements.

Statement of disclosure to auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the board

DocuSigned by:
Kate Blackledge
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Kate Blackledge
Secretary
10 Exchange Square
Primrose Street
London EC2A 2EN

Date: June 18, 2020

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Independent auditors' report to the members of Western Asset Management Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, Western Asset Management Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2020; the statement of income and retained earnings for the year ended 31 March 2020; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Independent auditors' report to the members of Western Asset Management Company Limited (continued)**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit***Responsibilities of the Directors for the financial statements***

As explained more fully in the Statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Independent auditors' report to the members of Western Asset Management Company Limited (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Colleen Local (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
Date: 18 June 2020

WESTERN ASSET MANAGEMENT COMPANY LIMITED

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Statement of income and retained earnings**for the year ended 31 March 2020****Registered No. 2479672**

	<u>Note</u>	<u>2020</u>	<u>2019</u>
		\$	\$
Turnover	4	76,184,956	73,349,360
Administrative expenses	5, 6, 7, 8, 9	(64,867,187)	(67,935,216)
Interest receivable and similar income	5	927,544	945,363
Interest payable and similar expenses	5	(7,245)	(9,978)
Profit before taxation		<u>12,238,068</u>	<u>6,349,529</u>
Tax on profit	10	(2,729,498)	(1,271,910)
Profit for the financial year		<u>9,508,570</u>	<u>5,077,619</u>
Retained earnings at the beginning of the year		44,795,780	49,718,161
Profit for the financial year		9,508,570	5,077,619
Dividends	11	(15,000,000)	(10,000,000)
Retained earnings at the end of the year		<u>39,304,350</u>	<u>44,795,780</u>

All amounts are in respect of continuing activities.

The notes on pages 20 to 38 form an integral part of these financial statements.

WESTERN ASSET MANAGEMENT COMPANY LIMITED
Statement of financial position as at 31 March 2020

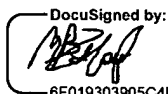
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Registered No. 2479672

	Note	2020 \$	2019 \$
FIXED ASSETS			
Tangible assets	12	539,966	686,138
TOTAL FIXED ASSETS		<u>539,966</u>	<u>686,138</u>
CURRENT ASSETS			
DEBTORS: amounts falling due within one year	13	21,209,148	25,378,626
DEBTORS: amounts falling due after more than one year	13	488,959	459,793
Investments	14	34,129,277	35,061,841
Cash at bank and in hand		12,856,283	11,597,685
		<u>68,683,667</u>	<u>72,497,945</u>
CREDITORS: amounts falling due within one year	16	(18,219,000)	(15,666,888)
NET CURRENT ASSETS		<u>50,464,667</u>	<u>56,831,057</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		51,004,633	57,517,195
CREDITORS: amounts falling due after more than one year	16	(23,651)	(48,205)
Provisions for liabilities	17	(626,622)	(1,623,200)
NET ASSETS		<u>50,354,360</u>	<u>55,845,790</u>
CAPITAL AND RESERVES			
Called up share capital	18	11,050,010	11,050,010
Retained earnings		39,304,350	44,795,780
TOTAL SHAREHOLDERS' FUNDS		<u>50,354,360</u>	<u>55,845,790</u>

The notes on pages 20 to 38 form an integral part of these financial statements.

The financial statements on pages 18 to 38 were approved for issue by the board and signed on its behalf by:

DocuSigned by:


6F019303905C4DE...

M. Zelouf

Date: June 18, 2020

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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1. General information

Western Asset Management Company Limited (“the Company”), is an investment manager, principally providing investment management services to both external clients and to clients of its affiliates. The Company is authorised by the FCA and makes its Pillar 3 disclosures on its website www.westernasset.com.

The Company is a company limited by shares, incorporated and domiciled under the laws of England and Wales. The address of its principal place of business is 10 Exchange Square, Primrose Street, London EC2A 2EN. The ultimate parent company is Legg Mason Inc. (“Parent”).

2. Statement of compliance

These individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”), and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition seldom equal the related actual results. Included within provisions for liabilities is an amount related to dilapidation costs, which the Company expects to incur under the terms of its tenancy agreement. The amount provided for is reasonable in determining the scale of restoration works that will be enforced by the landlord at the end of the Company’s lease. The amount provided for is based on management’s best estimate and based on an internal assessment. Further details are provided in Note 17.

(b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with.

The Company has taken advantage of the following exemptions:

- (i) from disclosing a reconciliation of the number of shares outstanding at the beginning and end of the period;
- (ii) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the statement of cash flows included in the consolidated financial statements of the Parent includes the Company’s cash flows;

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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3. Summary of significant accounting policies (continued)

- (iii) from disclosing details of financial instruments, on the basis that it is a qualifying entity and disclosure of financial instruments such as trade receivables and trade payables are included in the consolidated financial statements of the Parent;
- (iv) from disclosing details of certain share-based payment arrangements required under FRS 102 section 26 in respect of shares based payments of the Parent issued to employees of the Company by the Parent which are presented in those financial statements;
- (v) from disclosing the Company's key management personnel compensation in total, as required by FRS 102 paragraph 33.7.

(c) Functional currency

The functional and reporting currency of the Company is US Dollar, as the Directors consider this to be the most appropriate currency for the Company's business.

(d) Foreign currency translation

Foreign currency monetary assets and liabilities are translated into US Dollars at the balance sheet date. Transactions during the period expressed in foreign currencies are translated into US Dollars at the rate of exchange ruling in the month in which they occur. Any foreign exchange differences are taken to the Statement of Income and Retained Earnings in the year in which they arise.

Foreign currency non-monetary assets are carried in the balance sheet translated into US Dollars at historic rates of exchange. This is determined using the month end rate of exchange for the month in which they were acquired.

The £ / US Dollar rate used at the balance sheet date is 1.239839 (2019: 1.299733)

The average rate for the balance sheet for the year was 1.270759 (2019: 1.308142)

(e) Revenue recognition

Turnover or revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for investment management services rendered, net of any rebates allowed and value added taxes. Revenue in respect of performance fees is recognised in the financial statements at the end of the related contractual performance period when all performance criteria have been met and the outcome of the transaction can be measured reliably.

(f) Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) *Short Term Benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) *Incentive Plans*

The Company operates an Employee Benefit Trust ("EBT") as part of the overall remuneration strategy for employees. Annually, a bonus award, as determined by the Company, may be paid into the EBT. Where the EBT is considered to remain under the control of the Company, the assets and liabilities of the EBT are included in the Company's financial statements until they become fully vested and are paid to the relevant employees. See Notes 7 and 8 for further detail.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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3. Summary of significant accounting policies (continued)**(f) Employee benefits (continued)****(ii) *Incentive Plans (continued)***

The Company has set up a Group Personal Pension Plan, which is a defined contribution scheme and is administered by a third party. Contributions to the pension scheme are charged to the Statement of Income and Retained Earnings. See Note 9 for further details.

(iii) *Annual Bonus Plan*

The Company operates an annual bonus plan for employees. An expense is recognised in the Statement of Income and Retained Earnings when the Company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(iv) *Share Based Payments*

Under the EBT, the Parent awards eligible employees restricted shares of the Parent. The Company has accounted for such share-based payments in line with FRS 102 as equity settled transactions. The recharge from the Parent is recorded as an intercompany payable position, with a corresponding charge in the Statement of Income and Retained Earnings as services are rendered.

Under the Parent's share option plan, the fair value of stock options issued are measured at grant date, then, periodically as shares vest and employees become unconditionally entitled to the shares, an employee expense is recognised, with no adjustments recorded for changes in market value of the Parent for the shares granted.

(g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Income and Retained Earnings.

Current or deferred taxation assets and liabilities are not discounted.

(i) *Current Tax*

Current tax is the amount of corporation tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) *Deferred Tax*

Deferred tax arises from timing differences. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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3. Summary of significant accounting policies (continued)*(ii) Deferred Tax (continued)*

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(h) Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, including any incidental expenses of acquisition. Depreciation is calculated to write off the cost of the tangible fixed assets on a straight line basis over their expected economic lives. The principal annual rates used for the purpose are:

IT & Communications equipment	33%
Office equipment	20 – 33%

Depreciation is charged on a monthly basis and a full month's charge is made in the month following acquisition.

Leasehold improvements are depreciated over the remaining life of the relevant lease. Depreciation for artwork is not provided as no diminution of its value is expected.

(i) Dividends

Dividends and other distributions to the Company's shareholder are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the board of directors. These amounts are recognised in the Statement of Income and Retained Earnings.

(j) Investments

The Company's investment in the EBT and Western Asset Liquidity Funds plc ("WALF") are current asset investments and are stated at fair value. Changes in fair value are recognised as fair value adjustments through the Statement of Income and Retained Earnings.

(k) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(l) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement. See Note 19 for further details.

(i) Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date. The capital element of lease obligations is recorded as a liability on inception of the arrangement.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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3. Summary of significant accounting policies (*continued*)**(l) Leased assets (*continued*)****(ii) *Operating leased assets***

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Statement of Income and Retained Earnings on a straight-line basis over the period of the lease.

(iii) *Lease incentives*

Incentives received to enter into an operating lease are credited to the Statement of Income and Retained Earnings, to reduce the lease expense, on a straight-line basis over the period of the lease.

(m) Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Section 11 (*Basic Financial Instruments*) and Section 12 (*Other Financial Instruments*) were issued under FRS 102 and provide guidance for recognising, derecognising, assessing impairment, and measuring and disclosing financial instruments. Section 11 applies to basic financial instruments, such as trade and other receivables, cash and cash equivalents, trade and other payables, bank loans, intercompany payables and common and preference shares. Section 12 applies to other more complex financial instruments and transactions such as derivatives, including currency futures and forward foreign exchange contracts.

Basic financial instruments are generally recognised at cost or amortised cost.

Derivatives are complex financial instruments and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in Statement of Income and Retained Earnings as appropriate. The Company has no derivatives at 31 March 2020.

(n) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. See Note 17 for further details.

Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources of that the amount cannot be reliably measured at the reporting date or (ii) the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow is remote or the outflow is immaterial.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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4. Turnover

Turnover, which is stated net of value added tax, represents the amounts receivable for the management of investment portfolios for clients and an allocation of turnover from the Company's affiliates where the Company is responsible for servicing the client.

The geographical location of the clients is analysed as follows:

	2020	2019
	\$	\$
United Kingdom	8,839,481	10,771,964
United States of America	19,062,498	16,928,853
Europe (excluding United Kingdom)	12,201,574	12,431,090
Rest of the World	36,081,403	33,217,453
	<u>76,184,956</u>	<u>73,349,360</u>

5. Operating profit

	2020	2019
	\$	\$
The operating profit is stated after charging / (crediting) :		
Auditors' remuneration - audit services	196,730	189,847
Auditors' remuneration - other services pursuant to legislation	6,199	4,070
Lease of office premises	1,696,788	1,767,752
Loss / (gain) on foreign exchange	24,598	(58,459)
Interest payable and similar charges	7,245	9,978
Depreciation - on tangible owned fixed assets	441,911	457,518
Depreciation - on tangible fixed assets held under finance leases	24,666	24,666
Interest receivable	(313,990)	(281,796)
Income from current asset investments		
- Realised gains - EBT	(108,450)	(90,057)
- Unrealised loss	266,706	106,744
- Gains on investments - WALF	(613,554)	(680,254)

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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6. Information regarding directors and employees

Employment costs incurred by the Company and included in administrative expenses comprise:

	2020	2019
	\$	\$
Wages and salaries	17,473,977	16,883,324
Social security costs	2,443,109	2,418,062
Restricted stock and stock options in parent Company	160,362	533,030
Other pension costs	876,477	920,985
	<u>20,953,925</u>	<u>20,755,401</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2020	2019
	No.	No.
By activity		
Portfolio management	23	26
Marketing & client services	14	15
Administration	24	25
	<u>61</u>	<u>66</u>

Aggregate directors' emoluments related to the highest paid director are as follows:

	2020	2019
	\$	\$
Emoluments	1,611,692	1,553,778
Pension contributions	44,906	41,466
Employee deferred benefits	502,143	558,774
Contribution to Employee Deferred Incentive Plan	-	-
	<u>2,158,740</u>	<u>2,154,018</u>

Retirement benefits are accruing to 1 (2019: 1) director under a defined contribution scheme. Share options were exercised by nil (2019: nil) directors during the year.

The emoluments of the other 2 directors (2019: 2) are paid by the Parent or other group companies which make no recharges to the Company. These two directors are employees and / or directors of the Parent and / or a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their emoluments in respect of the Company. Accordingly, the above details include no emoluments in respect of these two directors.

Additionally, during the year 2016, 2017, 2018 and 2019 EDIP schemes partially vested and a cash amount of \$173,535 (2019: \$172,595) was paid by the Company to the highest paid director.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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7. Share-based payments

The following share-based award programme, which is settled in equity of the Parent is in operation by the Company for eligible executive directors and key employees.

Legg Mason Inc. restricted stock unit plan

The Parent issues restricted stock units to certain employees subject to continued employment with the Company. Vesting occurs over a four year period with 25% of the granted restricted stock units becoming vested and distributed in shares, which are available to be sold within a few days of the vesting date each year. Ownership of the restricted stock units are transferred to the employee once vested.

8. Incentive plans

The Company has one active EBT for the employee deferred incentive plan.

The trustees appointed to "The Western Asset Management Company International Employee Deferred Incentive Plan" ("EDIP") are "Intertrust Group".

There is no cash balance in the current year (2019: \$0) held in the EBT. Investments held by the EBT are disclosed in Note 14.

As at 31 March 2020, awards made under the EDIP vest between one and four years, and any unvested awards are forfeited if an employee leaves the Company for any reason other than retirement. All forfeitures revert to the Company. The expense related to the awards and any gains or losses associated with them are recorded in the year in which the awards vest. The method of settlement of the awards either in cash or the Parent's issued restricted stock is at the discretion of the Western Asset compensation committee.

EDIP awards totalling \$1,910,985 were made to senior employees attributable to the financial year ended 31 March 2020 (in May 2019, EDIP awards made for the 2019 financial year: \$1,723,446).

An accrual for awards totalling \$1,861,870 (2019: \$1,601,888) is included in these financial statements, and this total amount will be contributed to the EDIP. In addition \$182,490 (2019: \$150,623) has been provided in respect of employer's national insurance payable on these awards.

The expense recorded in the Statement of Income and Retained Earnings for the EDIP is \$1,356,598 (2019: \$1,224,549) and the employer's national insurance on this amounts to \$194,071 (2019: \$154,852).

9. Pension

The Company operates a defined contribution pension scheme. The scheme is a Group Personal Pension Plan which is run and administered by Scottish Widows, an unrelated third party.

The pension cost charge represents contributions payable by the Company to the fund and amounted to \$876,477 (2019: \$920,985). At 31 March 2020 there were no pension contributions in arrears (2019: \$0).

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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10. Tax on profit**a. Tax on profit**

	2020	2019
	\$	\$
Current year tax charge	2,482,332	1,329,789
Adjustments in respect of prior periods	309,818	20,986
Adjustments in respect of FX difference of prior periods	(33,486)	6,116
Current year tax charge	<u>2,758,664</u>	<u>1,356,891</u>
Deferred taxation - current year timing differences	(29,166)	(84,981)
Total tax on profits	<u>2,729,498</u>	<u>1,271,910</u>

b. Reconciliation of tax charge

Tax assessed for the year ended 31 March 2020 is higher than (2019: higher than) the standard rate of corporation tax in the UK for the year ended 31, March 2020 19% (2019: 19%)

	2020	2019
	\$	\$
Profit before taxation	12,238,068	6,349,529
Expected tax at standard rate of 19% (2019: 19%)	2,325,233	1,206,410
Effects of :		
Expenses not deductible for tax purposes	29,211	29,801
Adjustments in respect of prior periods	309,818	20,986
Adjustments in respect of FX difference of prior periods	(33,486)	6,116
Adjustments for reduction in corporation tax rate on timing differences	135,028	9,998
Unprovided adjustment in respect of current year tax charge	(7,140)	(1,401)
Deferred tax items	(29,166)	-
Total year tax charge	<u>2,729,498</u>	<u>1,271,910</u>

The current year tax charge has not been adjusted by group relief from other group companies as no group relief has been granted.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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10. Tax on profit (*continued*)c. Deferred tax

	<u>Fixed Assets</u>	<u>Employee remuneration</u>	<u>Total</u>
	\$	\$	\$
Asset as at 1 April, 2019	177,188	282,605	459,793
Current year charge/(credit)	(44,377)	73,543	29,166
Asset as at 31 March, 2020	<u>132,811</u>	<u>356,148</u>	<u>488,959</u>

The timing differences related to: (i) accelerated capital allowances on fixed assets; and (ii) the issuance of deferred compensation awards to employees on which a corporate tax deduction can be taken when the deferred compensation vests and is distributed to participants.

The Directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset and therefore the asset has been recognised in these financial statements.

d. Tax rate changes

The tax rate for the current year is the same as the prior year as there was no change in the UK Corporation tax rate, which remained at 19% since 1 April 2017. On the basis that the UK Corporation tax will remain at 19% from 1 April 2020, the Company's deferred tax balances have been effected at the same rate.

11. Dividends

A dividend of \$15 million was declared and paid during the year to the Company's sole shareholder Western Asset Management (Cayman) Holdings Limited (2019: \$10 million), equating to \$149.99 per ordinary share (2019: \$99.99) and there are no amounts outstanding in relation to dividends included in these financial statements.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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12. Tangible assets

	<u>IT & Communications Equipment</u>	<u>Furniture & Fixtures</u>	<u>Office Equipment</u>	<u>Art</u>	<u>Leasehold Improvements</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$
<i>Cost</i>						
As at 1 April 2019	564,114	4,492	100,861	136,457	3,739,079	4,545,003
Additions	183,514	-	-	-	136,891	320,405
Disposals	(277,649)	-	-	-	-	(277,649)
As at 31 March 2020	<u>469,979</u>	<u>4,492</u>	<u>100,861</u>	<u>136,457</u>	<u>3,875,970</u>	<u>4,587,759</u>
<i>Accumulated depreciation</i>						
As at 1 April 2019	388,400	1,107	29,814	-	3,439,544	3,858,865
Charge for the financial year	163,784	899	25,398	-	276,496	466,577
Disposals	(277,649)	-	-	-	-	(277,649)
As at 31 March 2020	<u>274,535</u>	<u>2,006</u>	<u>55,212</u>	<u>-</u>	<u>3,716,040</u>	<u>4,047,793</u>
<i>Net book value</i>						
31 March 2020	<u>195,444</u>	<u>2,486</u>	<u>45,649</u>	<u>136,457</u>	<u>159,930</u>	<u>539,966</u>
31 March 2019	<u>175,714</u>	<u>3,385</u>	<u>71,047</u>	<u>136,457</u>	<u>299,535</u>	<u>686,138</u>

The net book value of tangible assets includes an amount of \$45,220 (2019: \$69,886) in respect of office equipment held under finance leases.

WESTERN ASSET MANAGEMENT COMPANY LIMITED

Notes to financial statements for the year ended 31 March 2020

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13. Debtors

	2020	2019
	\$	\$
Amounts falling due within one year :		
Trade debtors	13,069,845	12,498,786
Amounts owed by group undertakings	6,818,647	11,434,432
Other debtors	286,763	360,653
Prepayments and accrued income	1,033,893	1,084,755
	<u>21,209,148</u>	<u>25,378,626</u>

Amounts owed by group undertakings includes a \$6.1 million (2019: \$10.8 million) loan to an affiliate. The loan bears interest at 12-month LIBOR plus .125% with a maturity date of May 28, 2021. The remaining balance is unsecured, interest free, has no fixed date of repayment and is repayable on demand.

The Company makes available to all employees interest-free season ticket loans which are repayable by ten monthly instalments. The balance of \$42,579 (2019: \$80,005) is included in other debtors.

Amounts falling due after more than one year from Deferred Tax is \$488,959 (2019: \$459,793). See Note 10 for further details.

14. Investments

The Company has an investment of \$3,267,189 (2019: \$2,847,191) in EDIP. This plan is invested in a range of investment funds managed by Western Asset.

During the year, the EBT generated realised gains of \$108,450 (2019: \$90,057), and unrealised loss of \$266,706 (2019: loss of \$106,743).

The Company has an investment in the US Dollar fund in the WALF series. The WALF fund is a highly rated money-market fund and has same day liquidity. The principal investment objective of the fund is the preservation of capital. This investment is carried at fair value and at the balance sheet date was \$30,862,088 (2019: \$32,214,650). The share class in which the Company is invested, is a no-fee share class, thereby maximising the Company's return. The Company provides investment management services to the fund.

The Company classifies its financial assets within the EBT, which are shares and other variable-yield securities at fair value through Statement of Income and Retained Earnings.

The Company classifies its financial assets within WALF at fair value through Statement of Income and Retained Earnings.

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Notes to financial statements for the year ended 31 March 2020

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14. Investments (*continued*)

Financial assets designated at fair value through Statement of Income and Retained Earnings at inception are those that are managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's strategy is to invest in funds, designated at fair value through Statement of Income and Retained Earnings upon initial recognition.

The fair values of financial instruments traded in active markets are based on quoted bid prices on the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. As the funds invested in by the Company are priced daily based on net asset value (NAV) with subscriptions and redemptions occurring at NAV, the funds are considered to be measured at a quoted price in an active market.

Net gains or losses arising from changes in the fair value of fair-valued financial assets, are presented in the Statement of Income and Retained Earnings, together with related interest and dividend income within "Interest receivable and similar income" in the period in which they arise.

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date and these securities are included in (a).

The Company closely monitors the valuation of assets in markets that may become less liquid. Determining whether a market is active requires the exercise of judgment and is determined based on facts and circumstances of the market for the investment being measured. The Company does not hold investments where the investments have no active market.

The Company follows the FRS 102 hierarchy to estimate fair value:

- (a) The best evidence of fair value is a quoted price for an identical asset in an active market.
- (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.
- (c) If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique.

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14. Investments (*continued*)

The tables below present investments which include the EBT assets carried at fair value.

2020	(a)	(b)	(c)	Total
Fair value through profit and loss	\$	\$	\$	\$
Listed investments				
- Irish Stock Exchange	34,129,277	-	-	34,129,277
Total assets	<u>34,129,277</u>	<u>-</u>	<u>-</u>	<u>34,129,277</u>
2019	(a)	(b)	(c)	Total
Fair value through profit and loss	\$	\$	\$	\$
Listed investments				
- Irish Stock Exchange	35,061,841	-	-	35,061,841
Total assets	<u>35,061,841</u>	<u>-</u>	<u>-</u>	<u>35,061,841</u>

During the years ended 31 March 2020 and 2019, the Company did not hold investments categorised as (b) or (c) and correspondingly there were no transfers involving (b) or (c).

15. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risk: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by an internal risk management department adhering to principles and policies approved by the board of directors. The Company has written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk use of derivative financial instruments, and investment of excess liquidity.

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Notes to financial statements for the year ended 31 March 2020

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15. Financial risk management (*continued*)

(a) Market risk

(i) Foreign exchange risk

The Company, being US Dollar functional, and operating internationally, is exposed to foreign exchange risk arising from various currency exposures, primarily to Sterling, Euro and Yen. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the entity's functional currency. The estimated fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The amount is determined using quoted prices from independent third parties. During the year the Company mitigated its foreign exchange risk by the use of derivative instruments administered by an affiliate, specifically currency forward contracts. During the year, the Company made a foreign exchange loss of \$24,598 (2019: gain of \$58,459).

(ii) Price risk

The Company's investments held by the EBT are diversified in accordance with the guidelines of the EBT. As all investments are held by the EBT, the risk and reward of investment returns are borne entirely by the EBT's participants, the Company is not exposed to price risk relating to its EBT. The Company is not exposed to commodity price risk. The Company is indirectly exposed price risk as revenues may fluctuate based on assets under management, interest rates and the returns of the fixed income markets.

(b) Credit risk

Credit risk is managed on a Company-wide basis. Credit risk arises from cash deposits with banks and financial institutions, cash equivalents, derivative financial instruments, credit exposures to clients from outstanding fee receivables and loans made to group Companies. All the Company's banking relationships are with highly rated banks for short term deposits and are limited to those with a Moody's rating of at least Baal, or with a Standard and Poor's rating of at least BBB+. The Company assesses the credit quality of clients, taking into account their financial statements, regulatory position, past experience and other factors. Intercompany loans, including existing loans, may be considered only after assessing the impact projected cash flows under stress testing scenarios and ensuring the Company's minimum liquidity tolerance levels are maintained.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due. The Company performs monthly cash liquidity monitoring against set limits to ensure funds are available to meet such requirements.

(d) Cash flow and fair value interest rate risk

As the Company's only significant interest-bearing asset is cash, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

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Notes to financial statements for the year ended 31 March 2020

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16. Creditors

	<u>2020</u>	<u>2019</u>
	\$	\$
Amounts falling due within one year:		
Amounts owed to group undertakings	3,503,823	3,322,718
Obligations under finance leases	34,949	19,569
Taxation and social security	3,827,531	2,649,966
Accruals and deferred income	10,852,697	9,674,635
	<u>18,219,000</u>	<u>15,666,888</u>
Amounts falling due after more than one year:		
Obligations under finance leases	23,651	48,205
	<u>23,651</u>	<u>48,205</u>

The net finance lease obligations to which the Company is committed are:

	<u>2020</u>	<u>2019</u>
	\$	\$
In one year or less	34,949	19,569
Between one and two years	23,651	48,205
	<u>58,600</u>	<u>67,774</u>

The total value of finance leases repayable by instalments, any part of which falls due after more than five years is nil (2019: nil).

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

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Notes to financial statements for the year ended 31 March 2020

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17. Provisions for liabilities

Where leasehold office space becomes vacant or is sublet at market rates below the Company's master lease rates, the Company provides for all costs, net of anticipated or contracted income, to the end of the lease or the anticipated date of the disposal or sublease. This provision relates to office space in 10 Exchange which was sublet in 2011 and is surplus to the Company's requirements. The provision is expected to be utilised over the life of related leases to 2020.

The Company is currently a tenant of 10 Exchange Square and was due to vacate in early fiscal year 2020 prior to signing of new tenancy agreements in May 2020. There is a clause in the tenancy agreement relating to dilapidation work which must be undertaken before the property is vacated. The amounts provided are based on the current estimate of future costs determined on the basis of the present condition of the property. In arriving at this provision, the expected cash flows have been adjusted by assigning an appropriate probability weighting based on the level of dilapidation work likely to be carried out.

For the year ended 31 March 2020, a provision of \$599,055 (2019: \$1,462,200) has been made for estimated costs of the dilapidation repairs pertaining to level 10 at 10 Exchange Square. At 31 March 2020, the dilapidations provision of levels 9 and 11 at 10 Exchange Square was written down as the obligation to return the property to its original condition was released by the landlord. The decrease in provision is fully recognised in the Statement of Income and Retained Earnings during the year ended 31 March 2020.

	2020	2019
	\$	\$
Carrying amount at 1 April	1,623,200	309,861
Amounts reclassified from accruals and deferred income	-	218,569
Amounts (utilised)/charged during the year	(48,101)	1,094,770
Amounts released during the year	(948,477)	-
Balance at 31 March	<u>626,622</u>	<u>1,623,200</u>

18. Called up share capital

	2020	2019
	\$	\$
Issued, called up and fully paid		
100,010 (2019: 100,010) ordinary shares of \$1 each	100,010	100,010
10,950,000 (2019: 10,950,000) redeemable preference shares of \$1 each	10,950,000	10,950,000
	<u>11,050,010</u>	<u>11,050,010</u>

The preference shares carry no rights to participate in the profits of the Company, and no voting rights. The Company may redeem the preference shares at par, at any time subject to the provisions of the Companies Act 2006. On redemption, and at the discretion of the Directors, the preference shares may be converted to ordinary shares of similar par value.

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19. Financial commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020	2019
	\$	\$
Land and buildings payments due		
Not later than one year	-	1,908,217
Later than one year and not later than five years	-	38,579
	<u>-</u>	<u>1,946,796</u>

The Company signed a 15 year lease for office premises which was effective May 2005, and under the terms of which the Company had an initial rent free period of three years.

The Company signed a 10 year lease for office premises which was effective May 2020, and under the terms of which the Company has an initial rent free period to 31 January 2022. The rent payable under the lease will be subject to review in May 2025.

Provision for rental payable was made in the financial statements during the rent free period, and this is being released to the Statement of Income and Retained Earnings so as to spread this benefit evenly over the period of the lease.

20. Related party disclosures

The Company is exempt from disclosing related party transactions with other companies that are wholly owned within, and reported on the consolidated financial statements of, the group.

Consolidated financial statements of the group, in which the Company is included are publicly available, as disclosed in Note 21.

21. Controlling parties

The immediate parent undertaking is Western Asset Management (Cayman) Holdings Limited.

The ultimate controlling party is Legg Mason Inc., a Company incorporated and registered in the United States of America and listed on the New York Stock Exchange.

The only group into which the Company's results are consolidated is the group that is headed by Legg Mason, Inc. Copies of the consolidated financial statements of Legg Mason, Inc. are available from 100 International Drive, Baltimore, MD 21202, USA.

Further information can be found on the Legg Mason, Inc. website "www.leggmason.com" under "Investor Relations".

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22. Post balance sheet events

In February, 2020 Franklin Templeton announced the purchase of Legg Mason, and its affiliates, including Western Asset. Western Asset will retain full investment independence and organisational autonomy. Franklin Templeton recognises the importance of maintaining Western Asset's independence. Change of ownership will take place once the deal closes, expected to be in the second or third quarters of fiscal year ending 31 March 2021. The Company has informed all clients of the ownership change and has forwarded formal notices and/or requests for consents to clients where required by regulation or contracts.

The Company signed a 10 year lease for office premises which was effective May 2020, and under the terms of which the Company has an initial rent free period to 31 January 2022. The rent payable under the lease will be subject to review in May 2025.

While business plan goals and objectives are primarily long term, the current extraordinary circumstances relating to COVID-19 mean that the Company will continually assess the business plan and budget for the coming financial year in light of the current market conditions and their expected impact on the Company's business.