

LEGG MASON CANADA INC.

CONFLICTS OF INTEREST DISCLOSURE STATEMENT

Legg Mason Canada Inc. (“**LMC**”) is a corporation amalgamated under the laws of Canada. LMC is an indirect, wholly-owned subsidiary of Legg Mason, Inc. (“Legg Mason”), a global asset management firm headquartered in Baltimore, Maryland whose shares are listed on the New York Stock Exchange under the symbol LM. Structured as a holding company, Legg Mason’s business model is to provide asset management services to its clients around the world through a diversified group of asset management subsidiaries (hereinafter “Legg Mason Multi-Affiliate Business Model”), including LMC.

LMC is in the business of providing investment advisory services to its clients, using its own advisory services, as well as the advisory services of other Legg Mason asset management subsidiaries appointed by it to assist LMC with managing its clients’ accounts (hereinafter “Affiliated Managers”). These Affiliated Managers are affiliated with LMC through common control and ownership by Legg Mason. Pursuant to this distinctive Legg Mason Multi-Affiliate Business Model, LMC is able to offer its clients a broad spectrum of equity, balanced, fixed income and liquidity solutions ranging from separately managed account strategies, Canadian domiciled investment funds managed and sponsored by LMC (the “Canadian Funds”) and investment funds domiciled in foreign countries managed by one or more of the Affiliated Managers (the “Non-Canadian Funds”).

LMC uses the Canadian Funds to manage its clients’ accounts under fully discretionary investment management agreements which permit the use of the Canadian Funds in LMC’s discretion without first obtaining such client’s prior consent. Alternatively, a client may subscribe on its own to purchase units of a Canadian Fund directly through execution of a subscription agreement. LMC also provides advisory services for separately managed client accounts that invest directly in a portfolio of securities and other investments.

While LMC’s business has not changed, there have been some recent changes in Canadian securities regulation that affect advisors, dealers and fund managers doing business in Canada. LMC is and always has been registered to provide discretionary portfolio management services to its clients. LMC is, or after a permitted transition period of up to a year, will be required to be registered with securities regulatory authorities to be an ‘investment fund manager’, as LMC is responsible for the day-to-day business and affairs of the Canadian Funds sponsored by it. Lastly, while LMC is not in the business of trading securities generally, it will be required to be registered as an ‘exempt market dealer’ in all provinces in which clients invest on a private placement basis in the Canadian Funds sponsored by LMC or the Non-Canadian Funds managed by the Affiliated Managers, whether the Canadian Fund or Non-Canadian Fund is selected by LMC under its discretion or by the client.

Under the new regulations, LMC, in each of its registrant roles, is required to identify material conflicts of interest which would be expected to arise between LMC (including each individual, acting on its behalf) and its clients. Further, if a reasonable investor would expect to be informed of the nature and extent of an identified conflict of interest, LMC must do so. The purpose of this Conflicts of Interest Disclosure Statement is to provide LMC clients with a description of such conflicts as a registrant firm with roles as advisor, investment fund manager and dealer.

- 1. Services of Related Parties, Including Related Registrants** - LMC markets, promotes and offers its Canadian clients the investment advisory services of Affiliated Managers. It does so by (i) appointing Affiliated Managers as sub-advisors to the Canadian Funds and to its other Canadian clients, (ii) introducing or referring its Canadian clients to an Affiliated Manager, who, in turn, enters into an investment management agreement directly with the client to manage such client’s account, (iii) assisting an Affiliated Manager in servicing its Canadian clients once they have entered into a contractual relationship with the Affiliated Manager; or (iv) offering Canadian

investors, pursuant to its exempt market dealer registration, units or shares of the Canadian Funds and Non-Canadian Funds managed by such Affiliated Managers. LMC does not search for or select advisors which are not related to LMC, or take any steps to minimize the potential for conflicts of interest in connection with its selection of advisors, and does not intend to replace any related advisors with third parties.

In providing portfolio management services to certain clients or certain of the Canadian Funds, each Affiliated Manager is contractually bound to discharge its duties honestly and in good faith and in the best interests of the client and the Canadian Funds and to exercise the degree of care, diligence and skill that a reasonably prudent investment manager would exercise in comparable circumstances. While LMC will oversee the compliance by an Affiliated Manager with Canadian rules applicable to its Canadian clients where LMC appoints its related party as advisor, LMC will not change or terminate the services of an Affiliated Manager, if such Affiliated Manager is acting honestly and in good faith. As the manager and advisor to clients and the Canadian Funds, LMC is responsible for the advice received from an Affiliated Manager appointed by LMC and for any loss that arises out of the failure of an Affiliated Manager to meet the standard of care.

The Affiliated Managers appointed by LMC will be registered with the securities regulatory authority in their home jurisdiction. The Affiliated Managers may also be registered with securities regulatory authorities in Canada or may rely on exemptions from doing so. Following is a list of Affiliated Managers, including related registrants, on whose behalf LMC markets, promotes and offers to its clients in Canada:

- Batterymarch Financial Management, Inc.
- Brandywine Global Investment Management, LLC
- Clearbridge Advisors, LLC
- Global Currents Investment Management, LLC
- Legg Mason International Equities (Singapore) Pte Limited, dba Congruix Investment Management
- Legg Mason Capital Management, Inc.
- Legg Mason Global Asset Allocation, LLC
- Legg Mason International Equities Limited, dba Esemplia Emerging Markets
- Private Capital Management, LP
- Royce & Associates, LLC
- The Permal Group
- Western Asset Management Company

- 2. Referral Arrangements with Affiliated Managers and Third Parties** - As previously mentioned in section 1 above, LMC has referral arrangements with certain of the Affiliated Managers, pursuant to which LMC markets, promotes and introduces Canadian clients to such Affiliated Managers and provides ongoing client servicing to such Canadian clients. Under these referral arrangements, LMC generally receives a referral fee from the Affiliated Managers for its marketing, servicing and referral services. Under both Canadian and U.S. regulations, LMC is required to disclose the nature of such referral arrangements, including the fees it receives for referring Canadian clients to the Affiliated Managers. Canadian investors will receive a copy of such disclosure prior to entering into an investment advisory agreement with any of the Affiliated Managers established pursuant to a referral by LMC and prior to receipt or payment of referral fee if there is a change to the referral arrangement.

LMC also has a number of referral arrangements with third parties that introduce Canadian clients to LMC who are interested in investing in the Canadian Funds or obtaining the investment advisory services of LMC or an Affiliated Manager. Under these third party referral arrangements, LMC generally pays a referral fee to such introducing parties for their services. Under Canadian regulations, LMC is required to disclose the nature of such referral arrangements, including the referral fees it pays such introducing parties for referring Canadian clients to it. Canadian investors will receive a copy of such disclosure prior to entering into an investment advisory agreement with LMC or subscribing to purchase units of the Canadian Funds from LMC and prior to receipt or payment of referral fee if there is a change to the referral arrangement.

- 3. Investments in Related or Connected Issuers** - LMC is a wholly owned subsidiary of Legg Mason Canada Holdings Ltd. ("LM Holdings") which, in turn, is an indirectly held subsidiary of Legg Mason. As a result, LM Holdings and Legg Mason and its affiliates, including the Affiliated Managers, are related issuers of LMC. A related issuer means a person or company that influences or is influenced by, through ownership, or direction and control over voting securities, another person or company. Neither LMC nor the Affiliated Managers invest assets of their Canadian clients (including the Canadian Funds) in related issuers of LMC.

Clients of LMC may invest in Canadian Funds for which LMC serves as manager and trustee or Non-Canadian Funds for which Affiliated Managers serve as manager and sponsor. As such, the Canadian Funds and Non-Canadian Funds may be 'connected issuers' of LMC or the Affiliated Managers. A person or company is connected to another person or company if, due to its relationships with such person, a prospective purchaser of securities of the person or company might question the other person or company's independence from the first person or company. If LMC is recommending a Canadian Fund or Non-Canadian Fund which does not use the name Legg Mason in the fund name, or investing in any other connected issuer of LMC or the Affiliated Managers, LMC will describe in its marketing and similar materials its relationship or connection to such fund or other connected issuer.

- 4. Investments in Certain Other Issuers** - If any of the partners, directors, officers, employees or agents of LMC or any Affiliated Manager appointed by LMC are also partners, directors or officers of an issuer, LMC or such Affiliated Manager will not cause an investment portfolio managed by it, including the Canadian Funds, to invest in securities of such issuers without the prior written consent of the Canadian clients to do so after disclosure of that fact has been made.
- 5. Principal Transactions and Cross Trading Securities** - Under Canadian regulations, LMC is subject to certain restrictions from engaging in principal transactions with or on behalf of its clients and from cross trading securities between client accounts. In particular, without exemptive relief from regulatory authorities, LMC will not knowingly cause any client investment portfolio managed by it (including the Canadian Funds), to purchase or sell securities from or to (i) LMC, (ii) Affiliated Managers appointed by LMC to manage an LMC client account, (iii) any directors, officers or associates of LMC or such Affiliated Managers, or (iv) any investment funds managed by them (including the Canadian Funds sponsored by LMC and the Non-Canadian Funds managed by the Affiliated Managers).

LMC may, pursuant to exemptive relief granted by the regulatory authorities and with the consent of the client, purchase or redeem units of a Canadian Fund in consideration for the transfer of securities in kind from or to a Canadian Fund. In the event that LMC is granted any additional exemptions, LMC will notify clients of the terms of the exemptions.

- 6. Best Execution and Soft Dollars** - When placing orders for and on behalf of clients' accounts, LMC and Affiliated Managers will select those brokers and dealers from whom they reasonably expect to obtain the best execution (after considering all transaction costs and research or other benefits). LMC and certain Affiliated Managers may receive soft dollars in connection with trades in securities on behalf of clients and the Canadian Funds. Soft dollars create a perceived or

potential conflict of interest to the extent that (i) LMC or an Affiliated Manager may use soft dollars for services that benefit LMC or the Affiliated Manager and their other clients but not necessarily the Canadian Funds; and/or (ii) soft dollars generated by one Canadian Fund are used for the benefit of other funds/client accounts. Securities regulators have published or are in the process of publishing rules on acceptable soft dollar practices. LMC and the Affiliated Managers, respectively, comply with Canadian and U.S. regulatory requirements for soft dollar practices. A copy of the best execution and soft dollar policies of LMC may be obtained upon request.

- 7. Marketing, Promotion and Sale of Canadian Funds and Non-Canadian Funds** - LMC's services as advisor and dealer are integrated and generally not separable from each other when it acts as dealer on the trade in the Canadian Funds. In such circumstances, LMC does not receive any separate compensation for acting as a dealer on the trade. LMC's interest is in the fees paid to it by the client or Canadian Fund for its management and advisory services. LMC may from time to time solicit orders from Canadian clients for and trade Canadian Funds and Non-Canadian Funds. LMC does not receive any commission or similar selling compensation for acting as a dealer on such trades for its Canadian Funds, but may be entitled to receive selling compensation on the sale of shares or units of the Non-Canadian Funds in the form of an up-front sales charge or trail commission pursuant to an inter-company payment from a related party. LMC does not search for or recommend funds which are not sponsored or managed by LMC or its Affiliated Managers. LMC considers the suitability of investment funds for clients solely in the context of the available Canadian Funds and Non-Canadian Funds.
- 8. Fair Allocation Amongst Clients** - LMC and its Affiliated Managers are engaged to act as an advisor by many clients. LMC and/or its Affiliated Managers may aggregate orders for a number of client accounts for the purchase of a particular security. A conflict of interest can arise when selecting which clients' accounts to participate in the allocation. To handle any potential conflicts of interest, LMC and the Affiliated Managers have adopted trading policies which are designed to ensure fair allocation of securities amongst client accounts. A copy of the fair allocation policy of LMC will be provided when a client opens an account and when a significant change to the policy is made and may also be obtained upon request.
- 9. Fees of LMC** - LMC typically charges its clients a fee for its advisory services calculated as a percentage of the market value of the client's account. Where LMC appoints an Affiliated Manager as sub-advisor to assist with managing its client accounts, LMC is responsible for payment of the sub-advisory fees to the Affiliated Manager such that there is no duplication of fees charged to the underlying client. Furthermore, to avoid duplication of fees, LMC and the Affiliated Manager do not receive any management fees from the Canadian Funds attributable to Institutional Series Units purchased by LMC advisory clients that invest in one or more of the Canadian Funds under a discretionary investment management agreement with LMC. Rather, each advisory client pays LMC directly under a separately negotiated fee arrangement entered into between LMC and the advisory client pursuant to the investment management agreement.

LMC and/or the Affiliated Managers are generally responsible for the valuation of their client's assets and for determining the market value of the client's account. LMC and/or the Affiliated Managers may use valuation agents and typical pricing feeds to obtain the values for particular securities and other investments held in the portfolio. LMC, in its capacity as trustee for the Canadian Funds, has appointed a third party service provider to obtain the prices of securities in the Canadian Funds and for determining the net asset values of the Canadian Funds. In circumstances where the fair value of a security held by a Canadian Fund can not be determined in the usual manner, LMC makes use of a Legg Mason valuation committee to determine the price of such securities. The valuation committee has valuation policies and procedures approved by LMC, as trustee of the Canadian Funds, which are designed to mitigate any potential conflicts of interest.

In the event that LMC or an Affiliated Manager charges a client, including the Canadian Funds, a performance or incentive fee, such fee can pose a potential conflict to the extent that LMC or the Affiliated Manager appointed by it may have an incentive to take greater risks in making investment decisions and typically would not be required to return performance fees paid in prior periods if performance subsequently lags. Details regarding the calculation of performance fees will be provided to clients either directly or in offering documents of the Canadian Funds.

A Canadian Fund may invest in underlying funds and although there are fees and expenses payable by the underlying funds in addition to the fees and expenses payable by the top level fund, there is no duplication of management or incentive fees payable by a top level fund that is also payable by an underlying fund for the same service.

In addition to investment advisory fees charged to investors in the Canadian Funds, LMC is entitled to receive a fee for administrative services it provides to the Canadian Funds. LMC is also entitled to receive fees as trustee of the Canadian Funds. LMC, however, currently does not receive fees for its administrative services and services as trustee.

10. Allocating Expenses Amongst Funds and in a Fund - Each Canadian Fund pays its own operating expenses and fees of third party services providers to the funds. Information on the types of expenses that may be charged to the Canadian Funds is set out in the Canadian Funds' Confidential Offering Memorandum. As noted above, LMC does not currently charge the Canadian Funds for administrative services it provides to the funds or for its services as trustee. LMC has established policies and procedures to ensure that expenses charged to the Canadian Funds are reasonable and appropriate and the method of allocating such expenses amongst the funds is fair and equitable to all funds. Non fund-specific operating expenses that cannot be directly linked to a particular Canadian Fund are allocated amongst the Canadian Funds that used the services, typically based on the funds' respective net asset values. Similarly, if a Canadian Fund has more than one class or series of units or shares, the common expenses of the Canadian Fund will be shared amongst such classes or series, typically based on the respective net asset values of the classes or series, with the expenses related to a specific class or series being charged solely to the relevant class or series. As trustee of the Canadian Funds, LMC oversees the preparation of and approves the funds' annual budget. LMC has established procedures to periodically monitor budgeted vs. actual amounts and guidelines on when an adjustment to expense accruals should be made.

11. Pricing and Account Errors - LMC may have a potential conflict of interest when determining when, and how, to deal with a pricing error or other type of unitholder account error, due to the time, processing cost and reimbursement of investors involved. LMC uses third party service providers to calculate net asset values of the Canadian Funds and to record unitholder transactions. LMC has a written policy that establishes standards for the correction of discrepancies in the calculation of net asset value in a consistent manner across the Canadian Funds and in accordance with industry guidelines. LMC looks to the service providers to process corrections pursuant to LMC's written policy and monitors the service providers in the performance of their duties.

12. Proxy Voting and Other Corporate Actions - LMC and its Affiliated Managers usually have discretion in voting the portfolio securities purchased on behalf of clients, including the Canadian Funds. A perceived conflict arises given the opportunity to vote securities in its own interest or agree to certain corporate actions, including for the purpose of getting or maintaining certain issuers as clients. To minimize such conflicts, certain of the Affiliated Managers subscribe for proxy voting recommendation services from third parties and maintain records of how they vote securities. LMC and its Affiliated Managers do not invest in securities of issuers for the purposes of exercising control over, or participating in management of issuers.

LMC has delegated authority to vote proxies of securities held by clients or the Canadian Funds to its Affiliated Managers in written sub-advisory agreements. Each Affiliated Manager votes

proxies in accordance with its own proxy voting policy. LMC has established policies and procedures on how it handles material conflicts of interest that may arise between LMC, an Affiliated Manager and a Canadian Fund. LMC also has a policy of not voting units of an underlying Canadian Fund held by a top level Canadian Fund in a matter relating to an underlying fund.

13. Personal Trading, Gifts and Business Entertainment - When individual portfolio managers and other personnel of LMC invest in the same securities as clients of LMC, including the Canadian Funds, there is a perceived or potential conflict of interest that the portfolio manager or other personnel may benefit from opportunities at the expense of LMC's clients and the Canadian Funds. LMC has a Code of Ethics that sets forth standards of business conduct intended to prevent possible conflicts of interest, diversions of corporate opportunity or appearances of impropriety and has established policies and procedures for monitoring personal trades of employees, officers and directors who have access to information regarding the portfolios of clients and the Canadian Funds.

When employees of LMC give or accept gifts or business entertainment of more than minimal value in connection with services provided to clients or the Canadian Funds, there is also a perceived or potential conflict of interest. LMC has established written standards for the provision and acceptance of gifts and business entertainment to or from persons or entities with which the firm has an existing or potential business relationship and regularly monitors employees' adherence to such standards.

14. Outside Business Activities - When employees engage in certain activities, interests or associations outside the firm, a conflict of interest may arise between the employee's personal interests and those of LMC and its clients, including the Canadian Funds. LMC has developed policies and procedures that govern employees' outside business activities and to which all employees must adhere. Under no circumstances may an employee of LMC serve on the board of directors or other governing body of a publicly traded company. Further, LMC has implemented a notification and pre-approval process to restrict any outside business activity that would interfere or give the appearance of interfering with an employee's ability to act in the best interests of, or perform work for, LMC and its clients.

November 17, 2009