LEGG MASON
GLOBAL ASSET MANAGEMENT

Annual Report

Legg Mason
Alternative Funds ICAV

An Irish collective asset-management vehicle with variable capital having registration number C139549 and established as an umbrella fund with segregated liability between sub-funds

For the period from 17 July 2015 (date of formation) to 30 June 2016

Table of Contents

General Information

Board of Directors*

Brian Collins (Ireland) (Independent)
Joseph Keane (Ireland) (Independent)
Joseph LaRocque (U.S.)
Robert Shearman (United Kingdom) (resigned on 23 March 2016)
Jane Trust (U.S.) (appointed on 23 March 2016)

Registered Office of the ICAV

Arthur Cox Building
Earlsfort Terrace
Dublin 2, Ireland

Secretary

Bradwell Limited
Arthur Cox Building
Earlsfort Terrace
Dublin 2, Ireland

Irish Legal Adviser

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2, Ireland

Depositary

State Street Custodial Services (Ireland)
Limited
78 Sir John Rogerson's Quay
Dublin 2, Ireland

Independent Auditors

PricewaterhouseCoopers
Chartered Accountants & Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1, Ireland

Distributors and Shareholder Servicing Agents

Legg Mason Investor Services, LLC
100 International Drive
Baltimore, Maryland 21202
U.S.A.

Legg Mason Investments (Europe) Limited
201 Bishopsgate
London EC2M 3AB
United Kingdom

Legg Mason Asset Management Hong Kong Limited
12/F, York House
15 Queen's Road Central
Hong Kong

Legg Mason Asset Management Singapore Pte. Limited
1 George Street, # 23-02
Singapore 049145

Permal Investment Management Services Limited
12 St. James's Square
London SW1Y 4LB
United Kingdom

Administrator

State Street Fund Services (Ireland)
Limited
78 Sir John Rogerson's Quay
Dublin 2, Ireland

Promoter and Investment Manager

Legg Mason Investments (Europe) Limited
201 Bishopsgate,
London EC2M 3AB
United Kingdom

Sub-Investment Manager

EnTrustPermal Ltd.
12 St. James's Square
London SW1Y 4LB
United Kingdom

Swiss Representative**

First Independent Fund Services Ltd
Klausstrasse 33
CH-8008 Zurich
Switzerland

Swiss Paying Agent

NPB Private Bank Ltd
Limmatquai 1/am Bellevue
CH-8022 Zurich
Switzerland

* All of the Directors are non-executive Directors and were appointed on 17 July 2015 (the formation date).

** The Prospectus, the key investor information documents, the instrument of incorporation of the ICAV, the annual and semi-annual reports and the breakdown of the purchase and sale transaction of the Funds, may be obtained free of charge at the office of the Swiss Representative.

Directors' Report

The Directors submit their report together with the audited financial statements for the financial period ended 30 June 2016.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the ICAV's financial statements in accordance with Reporting Standard FRS 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ("FRS 102"), with the ICAV Act 2015 and the UCITS Regulations.

The ICAV Act requires the Directors to prepare financial statements for each financial period which give a true and fair view of the assets and liabilities and financial position of the ICAV and of the profit or loss of the ICAV for that period and otherwise comply with the ICAV Act. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with FRS 102 and ensure that they contain the additional information required by the ICAV Act; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the ICAV will continue in business.

The Directors are responsible for ensuring the maintenance of adequate accounting records which correctly explain and record the transactions of the ICAV, enable at any time the assets, liabilities, financial position and profit or loss of the ICAV to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors report comply with the ICAV Act and enable the financial statements to be audited in accordance with FRS 102, the ICAV Act and the UCITS Regulations. The Directors believe that they have complied with the requirement with regard to adequate accounting records by employing an experienced Administrator with appropriate expertise and adequate resources to prepare the financial statements. The Directors are responsible for safeguarding the assets of the ICAV. In this regard they have entrusted the assets of the ICAV to the Depositary who has been appointed as Depositary to the ICAV pursuant to the terms of a Depositary Agreement in accordance with the requirements of the UCITS Regulations. The Directors have a general responsibility for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors ensure compliance with the ICAV's obligation to maintain adequate accounting records by appointing competent persons to be responsible for them. The accounting records are kept by State Street Fund Services (Ireland) Limited, at 78 Sir John Rogerson's Quay, Dublin 2, Ireland.

The Directors are responsible for the maintenance and integrity of the corporate and financial information of the ICAV included on the website of Legg Mason affiliates that distribute the Fund. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate Governance Code

The Board has adopted the voluntary Irish Funds ("IF") Corporate Governance Code for Irish Domiciled Collective Investment Schemes and Management Companies. The Board has reviewed and assessed the measures included in the Code and considers its corporate governance practices and procedures since the adoption of the Code as consistent therewith.

Employees

The ICAV had no employees during the financial period ended 30 June 2016.

Directors

The Directors appointed on formation and who held office at any time during the period are detailed below:

	Nationality
Brian Collins*	Irish
Joseph Keane*	Irish
Joseph LaRocque	American
Robert Shearman (resigned on 23 March 2016)	British
Jane Trust (appointed on 23 March 2016)	American

As the day to day management and running of the ICAV has been delegated to the Investment Manager, Depositary and Administrator, all of the Directors of the ICAV are non-executive.

* Independent Directors

Key Performance Indicators

Key performance indicators monitored for the Fund include: the month to month movement in the NAV per share; the share capital movements; and the log of any errors, or breaches in investment restrictions.

Investment Objective and Investment Policy for Permal Alternative Income Strategy (the "Fund")

The Fund's investment objective is to seek total return comprised of capital appreciation and income. The Fund is a multi-manager, multi-strategy fund that seeks to achieve its investment objective by allocating its assets to a select group of discretionary sub-investment advisers ("Sub-Advisers") that employ a variety of investment strategies. In seeking to meet its investment goal, the Fund implements a tactical asset allocation program by investing in a number of alternative investment strategies (each an "Investment Strategy" and collectively the "Investment Strategies") which is overseen by the Fund's Sub-Investment Manager, Permal Investment Management Services Limited ("PIMSL"). PIMSL is responsible for selecting the Investment Strategies in which the Fund invests, identifying and retaining Sub-Advisers with expertise in the selected Investment Strategies, determining the proportion of the Fund's assets to allocate to each Sub-Adviser and Investment Strategy and monitoring the services provided by the Sub-Advisers. PIMSL seeks to reduce risk and volatility in the Fund through diversification of the Fund's exposure to multiple Sub-Advisers and Investment Strategies. Based on PIMSL's on-going evaluation of the Sub-Advisers and the macroeconomic environment, PIMSL may adjust allocations to Investment Strategies and/or Sub-Advisers accordingly or make decisions with respect to the termination or replacement of Sub-Advisers. In certain limited circumstances PIMSL may manage a portion of the assets themselves. In pursuing the Investment Strategies, the Fund may invest only in the investment techniques and instruments, including financial derivative instruments ("FDI") and currency hedging strategies, and securities.

Directors' and Secretary's Interests in Shares and Contracts

All Directors and the ICAV secretary who held office at 30 June 2016 had no interest in the share capital of the ICAV or associated group companies. The Directors are not aware of any contracts or arrangements of any significance in relation to the business of the ICAV in which the Directors had any interest.

Distributions to Holders of Redeemable Participating Shares

The distributions to holders of Redeemable Participating Shares for the period ended June 30, 2016 are set out in the Statement of Comprehensive Income.

Connected Party Transactions

Regulation 41(1) of the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferrable Securities) Regulations 2015 ("Central Bank Regulations") states that "a responsible person shall ensure that any transaction between a UCITS and a connected person is conducted (a) at arm's length; and (b) in the best interest of the unit-holders of the UCITS".

As required under UCITS Regulation 78(4) of the Central Bank Regulations, the Directors are satisfied that there are in place arrangements, evidenced by written procedures, to ensure that the obligations that are prescribed by Regulation 41(1) are applied to all transactions with a connected party; and all transactions with connected parties that were entered into during the period to which the report relates complied with the obligations that are prescribed by Regulation 41(1).

Review of Business and Future Development

The business of the ICAV is reviewed in detail in the Investment Manager's Report on page 5. The ICAV intends to continue promoting and generating interest in its business in the future.

The Net Asset Value per share of Permal Alternative Income Strategy is set out in the Statement of Financial Position on page 15. The Fund commenced operations on 25 August 2015.

Principal Risk and Uncertainties

The information required in relation to the use by the Fund of financial instruments and the financial risk management objectives and policies of the Fund and the exposure of the Fund to market risk, liquidity risk and credit risk are outlined in note 13 to these financial statements.

Directors Fees

The Director fees during the period ended 30 June 2016 amounted to US$6,439.

Soft Commissions

The Fund entered into soft commission arrangements and generated a total of US$3,334 for the period ended 30 June 2016.

Direct Brokerage

There were no direct brokerage services utilised for the period ended 30 June 2016.

Risk Management Objectives and Policies

The main risks arising from the ICAV's financial instruments are market price, interest rate, foreign currency, liquidity and credit risk. For further information on risk management objectives and policies, please see Note 13 of these financial statements and the Prospectus and Supplements of the ICAV.

Directors' Report – *(continued)*

Significant Events

The significant events during the financial period are detailed in note 15.

Subsequent Events

Significant events subsequent to the financial period end are detailed in note 17.

Independent auditors

PricewaterhouseCoopers were appointed during the period in accordance with Section 125(2) of the ICAV Act 2015 and have expressed their willingness to continue in office in accordance with Section 125(1) of the ICAV Act 2015.

On behalf of the Directors of the ICAV

Brian Collins Director Date: 14 October 2016	Joseph Keane Director

Depositary's Report

We have enquired into the conduct of Legg Mason Alternative Funds ICAV (the "ICAV") for the period ended 30 June 2016, in our capacity as Depository to the ICAV.

This report including the opinion has been prepared for and solely for the shareholders in the ICAV as a body, in accordance with Part 5 of the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended, ('the UCITS Regulations'), and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Responsibilities of the Depository

Our duties and responsibilities are outlined in Part 5 of the UCITS Regulations. One of those duties is to enquire into the conduct of the ICAV in each annual accounting period and report thereon to the shareholders.

Our report shall state whether, in our opinion, the ICAV has been managed in that period in accordance with the provisions of the ICAV's Instrument of Incorporation and the UCITS Regulations. It is the overall responsibility of the ICAV to comply with these provisions. If the ICAV has not so complied, we as Custody must state why this is the case and outline the steps which we have taken to rectify the situation.

Basis of Depository Opinion

The Depositary conducts such reviews as it, in its reasonable opinion, considers necessary in order to comply with its duties as outlined in Part 5 of the UCITS Regulations and to ensure that, in all material respects, the ICAV has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the ICAV's constitutional documentation and the appropriate regulations.

Opinion

In our opinion, the ICAV has been managed during the period, in all material respects:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the ICAV by the Instrument of Incorporation, the UCITS Regulations and the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Undertakings for Collective Investment in Transferable Securities) Regulations 2015 ('the Central Bank UCITS Regulations'); and

(ii) otherwise in accordance with the provisions of the Instrument of Incorporation, the UCITS Regulations and the Central Bank UCITS Regulations.

State Street Custodial Services (Ireland) Limited
78 Sir John Rogerson's Quay
Dublin 2
Ireland
Date: 14 October 2016

Investment Manager's Report

Market review for Permal Alternative Income Strategy

After a volatile third quarter in financial markets, particularly in August and September, the fourth quarter of 2015 began on a more positive note. Indeed, October saw a strong recovery in most markets. In early October, market participants interpreted the poor US employment data as a dovish signal for the US Federal Reserve with a lower probability of rate hikes. Risk appetite came back very strongly and equity markets rebounded vigorously while sovereign bonds sold off.

After the strong rally in October, November appeared quieter on the surface. Emerging markets (EM) continued to be sold while risk appetite for European assets came back with an anticipation of a strong second leg of quantitative easing by the European Central Bank (ECB). In credit markets, high yield bonds continued to fall with the Citigroup HY CCC Bond Index down over 5% for the month while overall the Citigroup HY Bond Index was down over 2%. Investment grade bonds also gave back some performance for the month; the Citigroup Global IG Bonds Index was down for the month.

December was not easy for European credit markets after disappointing additional quantitative easing (QE) measures from the ECB, Portugal's central bank imposing losses on certain senior bondholders of Novo Banco SA and a general risk-off sentiment triggered by the forced liquidation of a US mutual fund.

Major global equity indices finished lower in January on global growth concerns and falling oil prices. US equity markets were also impacted by weaker domestic economic data and a dovish statement from the US Federal Reserve (Fed) raising concerns about the state of the US economy, stating future rate hikes could be slower than expected. European equity markets followed suit, not helped by the ECB indicating the need for an increased stimulus programme. Government bond yields fell as equities came under pressure, with negative yields pushing further and further out the curve in an increasing number of developed market countries, exacerbated by Japan's decision to move official rates into negative territory at the end of the month.

In February, most global equity indices continued a downward slide amid concerns about global growth. US Treasuries rallied across the curve as the likelihood of further immediate rate rises receded (by the end of February, the likelihood of one further rate hike in 2016 was 50%). Consequently, the yield on the US 10-Year Treasury fell 18 basis points (bps). Likewise, the German 10-Year bund dropped 22bps, yielding 0.11%. Japanese interest rates moved into negative territory mid-month and, by the end of the month, the yield on 10-year Japanese government bonds was -6bps. Currencies had a mixed month. Sterling weakened while the euro marginally strengthened against the US dollar, which, in turn, fell against the Japanese yen.

Global equity markets were up in March, clawing back most of their losses from the previous two months. EM saw the best performances, with Brazil the top-performing country in the EM bloc. Sovereign yields were generally up during the month. Credit markets also had a strong month in light of the return of investor risk appetite. In currencies, the US dollar continued to have a poor month and was down against most currencies. Both the euro and sterling strengthened against the greenback. Nonetheless, it was against EM currencies that the US dollar really weakened, notably versus the Brazilian real, Russian ruble and Malaysian ringgit.

After a turbulent first quarter of the year, markets appeared to be more hesitant in April. Bulls felt like prices had reached attractive levels in March and, despite the strong recovery, opportunities were still to be found. Bears, on the other hand, were still waiting for a more sanguine correction, believing that central bank interventions were losing steam and leading to market fatigue. Sentiment in some pockets of the markets showed signs of weakness, with fundamentals taking the lead.

In May, investor concerns about emerging markets resurfaced; all asset classes (including equities, credit and currencies) saw a degree of rebalancing towards developed markets, especially the US. In credit markets, there was strong repricing among lower quality bonds, while investment grade was mostly unchanged.

The main topic for June was the UK referendum and its 'Brexit' outcome surprising the markets and fuelling volatility in the market. The reaction to Brexit was much stronger in equities and currencies, than in credit markets. Although volatile, markets were not seriously disrupted.

Yours sincerely,

Legg Mason Investments (Europe) Limited

It should be noted that the value of investments and the income from them may go down as well as up. Investment involves risks, including the possible loss of the amount invested. Past performance is not a reliable indicator of future results.

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Independent Auditors' Report

Independent auditors' report to the shareholders of the Permal Alternative Income Strategy, a sub-fund of Legg Mason Alternative Funds ICAV.

Report on the financial statements

Our opinion

In our opinion, the financial statements of the Permal Alternative Income Strategy and sub-fund of Legg Mason Alternative Funds ICAV (the "financial statements"):

- give a true and fair view of the sub-fund's assets, liabilities and financial position as at 30 June 2016 and of its results for the period 17 July 2015 to 30 June 2016.
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Irish Collective Asset-management Vehicles Act 2015 and the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011 (as amended).

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Statement of Financial Position as at 30 June 2016;
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares for the period then ended;
- the Portfolio of Investments as at 30 June 2016; and
- the notes to the financial statements which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Matters on which we are required to report by the Irish Collective Asset-management Vehicles Act 2015

In our opinion the information given in the Directors' Report is consistent with the financial statements.

Matter on which we are required to report by exception

Directors' remuneration

Under the Irish Collective Asset-management Vehicles Act 2015 we are required to report to you if, in our opinion, the disclosures of directors' remuneration specified by section 117 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the shareholders of the sub-fund as a body in accordance with section 120 of the Irish Collective Asset-management Vehicles Act 2015 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the sub-fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
14 October 2016

Permal Alternative Income Strategy

Portfolio of Investments

Face Value (000's)		Value ('000's) $	% of Net Asset Value
Transferable Securities — 37.83%			
Bonds — 30.55%			
Canada — 2.57%			
3,750	Cenovus Energy Inc 4.450% due 15/09/42	2,999	0.91
3,750	First Quantum Minerals Ltd 7.000% due 15/02/21	3,014	0.91
3,750	Teck Resources Ltd 5.400% due 01/02/43	2,475	0.75
		8,488	2.57
France — 3.47%			
3,350	Credit Logement SA 0.888% due 29/03/49	2,796	0.85
1,100	Dry Mix Solutions Investissements SAS 5.500% due 15/03/23	1,239	0.38
2,308	Etablissements Maurel et Prom 1.625% due 01/07/19	1,614	0.49
3,750	Numericable-SFR SA 7.375% due 01/05/26	3,708	1.12
282	Picard Groupe SAS 4.250% due 01/08/19	313	0.09
2,050	Societe Generale SA 6.000% due 27/10/49	1,794	0.54
		11,464	3.47
Germany — 1.09%			
3,750	Pershing Square Holdings Ltd 5.500% due 15/07/22	3,586	1.09
Jersey — 1.40%			
250	Aston Martin Capital Ltd 9.250% due 15/07/18	333	0.10
200	Mercury Bondco Plc 8.000% due 30/05/21	219	0.07
3,700	Mercury Bondco Plc 8.250% due 30/05/21	4,058	1.23
		4,610	1.40
Luxembourg — 5.40%			
2,200	Altice Financing SA 6.500% due 15/01/22	2,222	0.67
2,747	Altice Finco SA 8.125% due 15/01/24	2,658	0.80
296	Altice Luxembourg SA 7.250% due 15/05/22	330	0.10
2,700	Altice Luxembourg SA 7.750% due 15/05/22	2,727	0.83
3,750	Intelsat Luxembourg SA 8.125% due 01/06/23	928	0.28
4,527	Matterhorn Telecom Holding SA 4.875% due 01/05/23	4,666	1.41
2,200	Play Topco SA 7.750% due 28/02/20	2,482	0.75
1,700	Wind Acquisition Finance SA 7.000% due 23/04/21	1,839	0.56
		17,852	5.40
Netherlands — 0.94%			
3,000	ABN AMRO Bank NV 6.250% due 13/09/22	3,120	0.94
Spain — 1.06%			
1,840	Banco Bilbao Vizcaya Argentaria SA 7.000% due 29/12/49	1,755	0.53
1,600	Banco Bilbao Vizcaya Argentaria SA 8.875% due 29/12/49	1,751	0.53
		3,506	1.06
Sweden — 0.28%			
800	TVN Finance Corp III AB 7.375% due 15/12/20	937	0.28
Switzerland — 0.55%			
1,800	Credit Suisse Group AG 7.500% due 29/12/49	1809	0.55
United Kingdom — 1.13%			
2,250	Aston Martin Holdings UK Ltd 10.250% due 15/07/18	2,194	0.66
680	Lloyds Bank Plc 9.875% due 16/12/21	702	0.21
811	Royal Bank of Scotland Plc 9.500% due 16/03/22	843	0.26
		3,739	1.13
United States — 12.66%			
3,750	Ashland Inc 6.875% due 15/05/43	3,750	1.14
777	Asset-Backed Pass-Through Certificates Series 2004-R12 2.013% due 25/01/35	475	0.14
675	Citigroup Mortgage Loan Trust Inc 1.593% due 25/02/35	405	0.12
500	Countrywide Asset-Backed Certificates 1.103% due 25/12/35	390	0.12
1,181	Era Group Inc 7.750% due 15/12/22	1,001	0.30
246	Fannie Mae Connecticut Avenue Securities (USD '1M-2') 5.453% due 25/07/25	247	0.07
717	Fannie Mae REMICS 3.500% due 25/04/42	63	0.02
459	First Franklin Mortgage Loan Trust 2004-FFH3 1.503% due 25/10/34	285	0.09
3,750	Frontier Communications Corp 11.000% due 15/09/25	3,895	1.18
950	IndyMac INDX Mortgage Loan Trust 2007-FLX1 0.723% due 25/02/37	504	0.15
3,750	L Brands Inc 7.600% due 15/07/37	3,891	1.18
592	Mastr Asset Backed Securities Trust 2004-WMC2 3.678% due 25/04/34	511	0.15
547	Oakwood Mortgage Investors Inc 7.920% due 15/03/31	391	0.12
222	RAMP Series 2002-RS5 Trust 1.193% due 25/09/32	193	0.06
671	Structured Asset Mortgage Investments II Trust 2007-AR1 0.653% due 25/01/37	304	0.09
23,000	United States Treasury Bill zero coupon due 18/08/16	22,992	6.97
2,500	United States Treasury Bill zero coupon due 08/12/16	2,497	0.76
		41,794	12.66
Total Bonds (Cost: $101,594)		100,905	30.55

The accompanying notes are an integral part of the Financial Statements

Permal Alternative Income Strategy

Portfolio of Investments – *(continued)*

Face Value (000's)		Counterparty	Value ('000's) $	% of Net Asset Value
Common Stock — 6.15%				
Germany — 0.04%				
5	Celesio		141	0.04
United States — 6.11%				
130	Alere		5,417	1.63
5	Ambac Financial Group		76	0.02
2	American Capital Agency		36	0.01
4	Annaly Capital Management		39	0.01
9	Blackstone Mortgage Trust Inc		253	0.08
–	Charter Communications Inc		9	0.00
16	Chimera Investment		245	0.07
3	Columbia Pipelin Group		64	0.02
81	EMC Corp		2,206	0.67
6	Invesco Mortgage Capital		82	0.02
35	LinkedIn Corp		6,626	2.01
33	Medivation		2,004	0.61
2	Nationstar Mortgage Holdings		25	0.01
16	New Residential Investment Corp		227	0.07
8	Santander Consumer USA Holdings		86	0.03
23	Two Harbors Investment		199	0.06
70	Yahoo!		2,610	0.79
			20,204	6.11
Total Common Stock (Cost: $20,449)			20,345	6.15
Exchange Traded Fund — 1.13%				
United States — 1.13%				
195	PIMCO Dynamic Credit Income Fund		3,730	1.13
Total Exchange Traded Fund (Cost: $3,659)			3,730	1.13
Total Investments Excluding Options (Cost: $125,702)			124,980	37.83
Purchased Options — 0.06%				
Alere Inc July 2016 Put 40		Morgan Stanley	10	–
Euro Stoxx 50 Index December 2016 Put 2,400		Credit Suisse	135	0.05
Euro Stoxx 50 Index December 2016 Put 2,500		Credit Suisse	11	–
Euro Stoxx 50 PR September 2016 Put 2,500		Credit Suisse	47	0.01
Total Purchased Options (Cost: $310)			203	0.06
Written Options — (0.01)%				
Alere Inc July 2016 Put 35		Morgan Stanley	(4)	–
LinkedIn Corp August 2016 Call 195		Morgan Stanley	(2)	–
LinkedIn Corp January 2017 Call 200		Morgan Stanley	(2)	–
LinkedIn Corp January 2017 Put 175		Morgan Stanley	(8)	–
LinkedIn Corp January 2017 Put 180		Morgan Stanley	(6)	–
LinkedIn Corp January 2017 Put 185		Morgan Stanley	(12)	(0.01)
LinkedIn Corp November 2016 Call 200		Morgan Stanley	–	–
Medivation Inc July 2016 Call 60		Morgan Stanley	(5)	–
Total Written Options (Cost: $(46))			(39)	(0.01)
Total Options (Cost: $264)			164	0.05
Total Investments (Cost: $125,966)			125,144	37.88
Other Assets in Excess of Liabilities			205,194	62.12
Total Net Assets			330,338	100.00

Analysis of Total Assets Classifications	% of Total Assets
Transferable securities admitted to an official exchange listing	29.80
Transferable securities traded on a regulated market	3.68
Other transferable securities of the type referred to in Regulations 68 (1)(a), (b) and (c)	0.76
Exchange Traded Fund	1.05
OTC financial derivative instruments	0.62
Exchange traded financial derivative instruments	0.21
Other Assets	63.88
	100.00

* Amounts shown as "–" are either less than $500 or less than 500 shares.

The accompanying notes are an integral part of the Financial Statements

Permal Alternative Income Strategy

Portfolio of Investments – *(continued)*

Open Futures Contracts

Schedule of Futures Contracts	Counterparty	Nominal Value	Notional Value (000's)	Unrealised Appreciation/ (Decpreciation) of Contracts (000's)
Nikkei 225 Mini September 2016	Credit Suisse	(78)	$(121,446)	$ 10
Euro Stoxx 50 September 2016	Credit Suisse	(9)	(257)	(9)
NASDAQ 100 E-Mini September 2016	Credit Suisse	(3)	(264)	(4)
Topix Index Futures September 2016	Credit Suisse	(2)	(24,910)	3
Cac40 10 Euro Future July 2016	Credit Suisse	(1)	(42)	(1)
DAX Index Future September 2016	Credit Suisse	(1)	(242)	(6)
H-Shares Index Futures July 2016	Credit Suisse	(1)	(436)	(3)
US Long Bond CBT September 2016	Barclays	(1)	5,170	37
Hang Seng Index Futures July 2016	Credit Suisse	1	1,047	7
Spi 200 Index Futures September 2016	Credit Suisse	2	259	1
Russell 2000 Mini September 2016	Credit Suisse	3	344	2
FTSE 100 Index Future September 2016	Credit Suisse	6	385	17
MSCI Taiwan Index July 2016	Credit Suisse	6	191	1
Euro Buxl 30 Year Bond September 2016	Barclays	19	3,727	106
Euro-BTP Future September 2016	Barclays	19	2,710	22
Bank Accepted Future June 2017	Barclays	20	4,958	–
US Ultra Bond CBT September 2016	Barclays	20	3,728	36
Long Gilt Future September 2016	Barclays	30	3,855	67
US Long Bond CBT September 2016	Barclays	30	(172)	(9)
S&P 500 Emini Futures September 2016	Credit Suisse	31	3,240	106
Euro-OAT Future September 2016	Barclays	39	6,271	116
US 10 Year Note CBT September 2016	Barclays	39	5,186	12
Euro-Bund Future September 2016	Barclays	53	8,857	78
Euro-Bobl Future September 2016	Barclays	88	11,757	37
90 Day Sterling Future June 2018	Barclays	105	13,078	35
90 Day Euro Future December 2018	Barclays	152	37,612	15
3 Month Euro Euribor December 2018	Barclays	444	111,389	43
Unrealised Appreciation on futures contracts				751
Unrealised Depreciation on futures contracts				(32)
Net Appreciation on futures contracts				$ 719

Schedule of Credit Default Swaps

Counterparty	Reference Entity	Buy/Sell Protection	Expiration Date	Notional Amount (000's)	Fair Value (000's)
Barclays	Allstate Corp 1.000% due 12/22/20	Buy	12/22/2020	275	$ (7)
Morgan Stanley	Allstate Corp 1.000% due 6/21/21	Buy	6/21/2021	3,475	(93)
Morgan Stanley	Barclays Bank Plc 1.000% due 06/22/21	Buy	6/22/2021	3,385	74
Morgan Stanley	Barclays Bank Plc 1.000% due 06/22/21	Buy	6/22/2021	325	7
Barclays	CDX.NA.HY.23 5.000% due 12/21/19	Buy	12/21/2019	3,638	(210)
Morgan Stanley	CDX.NA.HY.23 5.000% due 12/21/19	Buy	12/21/2019	3,250	(64)
Morgan Stanley	CDX.NA.HY.23 5.000% due 12/21/19	Buy	12/21/2019	500	(10)
Morgan Stanley	Domtar Corp 1.000% due 06/21/21	Buy	6/21/2021	3,400	93
Morgan Stanley	Domtar Corp 1.000% due 06/21/21	Buy	6/21/2021	350	10
Credit Suisse	iTraxx Europe Crossover 5.000% due 06/22/21	Buy	6/22/2021	7,400	(481)
Barclays	Kobe Steel Ltd 1.000% due 12/21/20	Buy	12/21/2020	35,000	–
Barclays	Kobe Steel Ltd 1.000% due 06/21/21	Buy	6/21/2021	350,000	19
Morgan Stanley	Kohl's Corp 1.000% due 12/21/20	Buy	12/21/2020	300	13
Morgan Stanley	Kohl's Corp 1.000% due 06/21/21	Buy	6/21/2021	3,400	207
Morgan Stanley	Kohl's Corp 1.000% due 06/21/21	Buy	6/21/2021	50	3
Morgan Stanley	Ryder System Inc 1.000% due 12/21/20	Buy	12/21/2020	300	(2)
Morgan Stanley	Ryder System Inc 1.000% due 6/21/21	Buy	6/21/2021	3,450	(13)
JPMorgan Chase Bank N.A.London	Telefonica Emisiones SAU 1.000% due 06/21/21	Buy	6/21/2021	80	1
					$ (453)
Unrealised Appreciation on Credit Default Swaps					427
Unrealised Depreciation on Credit Default Swaps					(880)
Net Depreciation of Credit Default Swaps					$ (453)

The accompanying notes are an integral part of the Financial Statements

Permal Alternative Income Strategy

Portfolio of Investments – *(continued)*

Schedule of Equity Swaps

Shares (000's)	Reference Entity	Counterparty	Fair Value (000's)
107	SABMiller Plc	Morgan Stanley	$ 109
40	St Jude Medical Inc	Morgan Stanley	20
35	Abbott Laboratories	Morgan Stanley	(26)
23	Alibaba Group Holding Ltd	Morgan Stanley	(18)
6	Humana Inc	Morgan Stanley	(44)
5	Aetna Inc	Morgan Stanley	(9)
			$ 32
	Unrealised Appreciation on Equity Swaps		129
	Unrealised Depreciation on Equity Swaps		(97)
	Net Appreciation on Equity Swaps		$ 32

Schedule of Forward Foreign Currency Exchange Contracts

Expiration Date	Counterparty	Buy Currency (000's)		Sell Currency (000's)		Unrealised Appreciation/ (Depreciation) of Contracts (000's)
7/1/2016	State Street Bank	EUR	25	USD	28	$ –
7/5/2016	State Street Bank	EUR	82	USD	91	–
7/5/2016	State Street Bank	USD	45	EUR	40	–
7/6/2016	Morgan Stanley	USD	19,232	EUR	17,095	260
7/8/2016	JPMorgan Chase	AUD	1,700	JPY	134,745	(37)
7/8/2016	JPMorgan Chase	AUD	4,040	USD	3,023	(11)
7/8/2016	JPMorgan Chase	CAD	5,420	USD	4,228	(33)
7/8/2016	JPMorgan Chase	EUR	7,790	USD	8,847	(202)
7/8/2016	JPMorgan Chase	GBP	2,540	USD	3,731	(348)
7/8/2016	JPMorgan Chase	JPY	235,217	AUD	3,030	18
7/8/2016	JPMorgan Chase	JPY	1,362,540	USD	13,056	140
7/8/2016	JPMorgan Chase	MXN	96,820	USD	5,180	115
7/8/2016	JPMorgan Chase	NOK	4,990	USD	605	(8)
7/8/2016	JPMorgan Chase	NZD	3,430	USD	2,439	9
7/8/2016	JPMorgan Chase	PLN	1,330	USD	344	(7)
7/8/2016	JPMorgan Chase	SEK	1,630	USD	198	(5)
7/8/2016	JPMorgan Chase	TRY	2,460	USD	846	8
7/8/2016	JPMorgan Chase	USD	1,809	AUD	2,440	(11)
7/8/2016	JPMorgan Chase	USD	2,030	CAD	2,650	(21)
7/8/2016	JPMorgan Chase	USD	11,356	EUR	10,210	24
7/8/2016	JPMorgan Chase	USD	5,017	GBP	3,560	277
7/8/2016	JPMorgan Chase	USD	4,446	JPY	459,050	–
7/8/2016	JPMorgan Chase	USD	6,962	MXN	130,260	(161)
7/8/2016	JPMorgan Chase	USD	555	NOK	4,730	(10)
7/8/2016	JPMorgan Chase	USD	575	NZD	810	(3)
7/8/2016	JPMorgan Chase	USD	524	PLN	2,080	(4)
7/8/2016	JPMorgan Chase	USD	350	SEK	2,980	(2)
7/8/2016	JPMorgan Chase	USD	443	TRY	1,300	(8)
7/8/2016	JPMorgan Chase	USD	131	ZAR	1,990	(4)
7/8/2016	JPMorgan Chase	ZAR	2,800	USD	190	–
7/29/2016	State Street Bank	EUR	299,765	USD	338,827	(5,873)
7/29/2016	State Street Bank	USD	15,449	EUR	13,663	273
9/21/2016	JPMorgan Chase	BRL	9,220	USD	2,584	220
9/21/2016	Morgan Stanley	BRL	300	USD	84	7
9/21/2016	Societe Generale	BRL	590	USD	166	14
9/21/2016	JPMorgan Chase	INR	190,660	USD	2,790	(3)
9/21/2016	Morgan Stanley	INR	4,590	USD	68	(1)
9/21/2016	Societe Generale	INR	18,260	USD	269	(2)
9/21/2016	JPMorgan Chase	USD	466	BRL	1,570	(11)
9/21/2016	Morgan Stanley	USD	23	BRL	80	(2)
9/21/2016	JPMorgan Chase	USD	3,315	INR	227,970	(18)
9/21/2016	Morgan Stanley	USD	6	INR	440	–
9/30/2016	State Street Bank	USD	143	EUR	128	1
Unrealised Appreciation on Forward Foreign Currency Contracts						1,366
Unrealised Depreciation on Forward Foreign Currency Contracts						(6,785)
Net Depreciation on Forward Foreign Currency Contracts						$ (5,419)

The accompanying notes are an integral part of the Financial Statements

Statement of Financial Position

(in '000's)	Note	Permal Alternative Income Strategy As at 30 June 2016
CURRENT ASSETS		
Cash	8	100,943
Cash Collateral	8	9,595
Cash equivalent		107,889
Amounts due from broker	8	5,263
Financial assets at fair value through profit or loss:	1	
Investments		124,980
Options at fair value		203
Unrealised appreciation on futures contracts		751
Unrealised appreciation on forward foreign exchange contracts		1,451
Unrealised appreciation on swap contracts		556
Receivable from holders of redeemable participating shares		646
Receivable for investment sold		176
Receivable from Investment Manager		14
Interest receivable		1,501
Dividend receivable		37
Prepaid expenses		128
Total Current Assets		**354,133**
CURRENT LIABILITIES		
Financial liabilities at fair value through profit or loss:	1	
Designated as held for trading		
Options at fair value		(39)
Unrealised depreciation on futures contracts		(32)
Unrealised depreciation on forward foreign exchange contracts		(6,870)
Unrealised depreciation on swap contracts		(977)
Payable for fund shares redeemed		(119)
Payable for investment purchased		(15,254)
Payable for distributions		(1)
Investment Manager fees payable		(82)
Sub-Adviser fees payable		(145)
Administrator and Depositary fees payable		(68)
Shareholder service fees payable		(2)
Audit fees payable		(25)
Directors fees payable		(4)
Legal fees payable		(51)
Performance fees payable		(2)
Accrued expenses and other liabilities		(124)
Total Liabilities (excluding net assets attributable to holders of redeemable participating shares)		**(23,795)**
Net assets attributable to holders of redeemable participating shares	**1**	**330,338**

	Total NAV (000's)	No. Shares (000's)*	NAV/Share
Perman Alternative Income Strategy			
Class A US$ Accumulating	5,059	51	98.81
Class A US$ Distributing Plus (Q)	2,391	24	98.81
Class A Accumulating Euro (Hedged)	7,566	77	98.16
Class A Euro Distributing Plus e (M)	696	7	102.05
Class A Euro Distributing Plus (Q) (Hedged)	12,023	123	98.03
Class E US$ Accumulating	90	1	99.72
Class R US$ Accumulating	1,270	13	100.85
Class R US$ Distributing Plus(e)(Q)	1	–	100.73
Class R Euro Accumulating (Hedged)	260,142	2,590	100.43
Class R Euro Distributing Plus(e)(Q) (Hedged)	1,221	12	100.66
Class S US$ Accumulating	2,420	24	99.66
Class S US$ Distributing Plus (Q)	11	–	100.07
Class S Euro Accumulating E (Hedged)	1,298	13	99.34
Class S Euro Distributing Plus Q (Hedged)	11	–	97.59
Class X Euro Accumulating (Hedged)	202	2	101.10
Premier Class US$ Accumulating	11	–	99.44
Premier Class US$ Distributing Plus (Q)	11	–	99.44
Premier Class Accumulating Euro (Hedged)	2,561	26	98.77
Premier Class Euro Distributing Plus (Q) (Hedged)	1,798	19	98.78

* If a class has less than 500 shares, they are shown as "–".

Brian Collins **Joseph Keane**
Date: 14 October 2016

The accompanying notes are an integral part of the Financial Statements

Statement of Comprehensive Income

(in '000's)	Note	Permal Alternative Income Strategy For the period ended 30 June 2016*
INVESTMENT INCOME		
Gross dividend income	1	147
Interest income	1	461
Other Income	1	23
Equalisation	1	(311)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss:		
Net realised gain/(loss) on financial instruments held for trading		182
Net unrealised gain/(loss) on financial instruments held for trading		(5,818)
Total Investment Income/(Loss)		**(5,316)**
EXPENSES		
Investment Manager fees	4	(171)
Sub-Adviser fees	4	(335)
Administrator and Depositary fees	4	(171)
Shareholder service fees	4	(6)
Audit fees	4	(25)
Directors fees and expenses	4	(6)
Legal fees		(230)
Performance fees		(2)
Other expenses		(201)
Transaction costs		(18)
Total Expenses		(1,165)
Expense waivers and reimbursements	4	304
Total Net Expenses		(861)
Net Profit/(Loss) before finance costs		**(6,177)**
FINANCE COSTS:		
Distribution paid	5	(1)
Profit/(Loss) for the financial period		**(6,178)**
Witholding tax on dividends and other taxation		(43)
Decrease in Net Assets attributable to Holders of Redeemable Participating Shares		**(6,221)**

* Period from 17 July 2015 (date of formation) to 30 June 2016.

The accompanying notes are an integral part of the Financial Statements

Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares

(in 000's)	Permal Alternative Income Strategy For the period ended 30 June 2016*
Net Decrease in net assets attributable to holders of redeemable participating shares	**(6,221)**
REDEEMABLE PARTICIPATING SHARE TRANSACTIONS	
Net proceeds from sales of shares	362,226
Net proceeds from Reinvested distributions	–
Cost of shares reacquired	(25,667)
Increase in Net Assets from Redeemable Participating Share transactions	**336,559**
Increase in net assets attributable to holders of redeemable participating shares	330,338
NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE PARTICIPATING SHARES	
Beginning of period	–
End of period	**330,338**

(000's)**	Permal Alternative Income Strategy For the period ended 30 June 2016*
Class A US$ Accumulating	
Sold	63
Redeemed	(12)
Net Increase	51
Class A US$ Distributing Plus (Q)	
Sold	34
Redeemed	(10)
Net Increase	24
Class A Accumulating Euro (Hedged)	
Sold	86
Redeemed	(9)
Net Increase	77
Class A Euro Distributing Plus e (M)	
Sold	7
Redeemed	–
Net Increase	7
Class A Euro Distributing Plus (Q) (Hedged)	
Sold	132
Redeemed	(9)
Net Increase	123
Class E US$ Accumulating	
Sold	1
Redeemed	–
Net Increase	1
Class R US$ Accumulating	
Sold	13
Redeemed	–
Net Increase	13
Class R US$ Distributing Plus(e)(Q)	
Sold	–
Redeemed	–
Net Increase	–
Class R Euro Accumulating (Hedged)	
Sold	2,611
Redeemed	(21)
Net Increase	2,590
Class R Euro Distributing Plus(e)(Q) (Hedged)	
Sold	12
Redeemed	–
Net Increase	12
Class S US$ Accumulating	
Sold	67
Redeemed	(43)
Net Increase	24
Class S US$ Distributing Plus (Q)	
Sold	25
Redeemed	(25)
Net Increase	–

(000's)**	Permal Alternative Income Strategy For the period ended 30 June 2016*
Class S Euro Accumulating E (Hedged)	
Sold	35
Redeemed	(22)
Net Increase	13
Class S Euro Distributing Plus Q (Hedged)	
Sold	22
Redeemed	(22)
Net Increase	–
Class X Euro Accumulating (Hedged)	
Sold	7
Redeemed	(5)
Net Increase	2
Premier Class US$ Accumulating	
Sold	20
Redeemed	(20)
Net Increase	–
Premier Class US$ Distributing Plus (Q)	
Sold	20
Redeemed	(20)
Net Increase	–
Premier Class Accumulating Euro (Hedged)	
Sold	35
Redeemed	(9)
Net Increase	26
Premier Class Euro Distributing Plus (Q) (Hedged)	
Sold	35
Redeemed	(16)
Net Increase	19

* Period from 17 July 2015 (date of formation) to 30 June 2016.
** If there are less than 500 shares, they are shown as "–".

The accompanying notes are an integral part of the Financial Statements

Notes to Financial Statements

Background

Sub-Advisers

EnTrustPermal Ltd., under the Sub-Investment Management Agreement, relating to the Fund is authorised to engage one or more Sub-Advisers for the purpose of assisting it with carrying out its duties and responsibilities as Sub-Investment Manager by exercising investment discretion over a Portfolio, provided the appointment of each Sub-Adviser is in accordance with the requirements of the Central Bank of Ireland (the "Central Bank").

During the period covered by this report, the Investment Manager had engaged the following entities as Sub-Advisers to provide investment management services to the Fund:

- Axonic Capital LLC
- Brevan Howard Asset Management LLP
- Eiffel Investment Group
- Gracie Capital LP
- Twin Capital Management LLC

Certain information concerning the Sub-Advisers will be provided by the Sub-Investment Manager, free of charge, upon a Shareholder's request and shall be available at the internet address http://www.permal.com.

1. Significant Accounting Policies

Legg Mason Alternative Funds ICAV (the "ICAV") is an open-ended Irish Collective Asset-management Vehicle with variable capital formed under the laws of Ireland and pursuant to the Irish Collective Asset-management Vehicles Act 2015 ("The ICAV Act"). The ICAV is authorised by the Central Bank of Ireland (the "Central Bank"), under the European Communities (Undertaking for Collective Investment in Transferable Securities) Regulations, 2011 (as amended), and under The Central Bank (Supervision And Enforcement) Act 2013 (Section 48(1) (Undertakings For Collective Investment In Transferable Securities) Regulations 2015) (together the "UCITS Regulations"). It was formed on 17 July 2015 with registration number C139549.

Its objective, as set out in the ICAV's Instrument of Incorporation, is the collective investment in transferable securities and other liquid financial assets of capital raised from the public. The ICAV is organised in the form of an umbrella fund. The Instrument of Incorporation provides for separate sub-funds, each representing interests in a defined portfolio of assets and liabilities, which may be established from time to time with the prior approval of the Central Bank. The Instrument of Incorporation of the ICAV also provides that the ICAV may offer separate classes of shares, each representing interests in a sub-fund comprising a distinct portfolio of investments. A separate portfolio of assets shall not be maintained for a class. Currently only 1 sub-fund, the Permal Alternative Income Strategy ("The Fund") has been established by the ICAV. The Fund formed on 17 July 2015 and was launched on 25 August 2015.

The significant accounting policies and estimation techniques adopted by the ICAV in the preparation of these financial statements are set out below.

Statement of compliance

The ICAV's financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS102"), Irish statute comprising the ICAV Act and the UCITS Regulations. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. As this is the first period of operation there are no comparative figures.

Critical Accounting Estimates and Assumptions

In preparation of financial statements in conformity with FRS 102 the ICAV is required to make certain accounting estimates and assumptions. Actual results may differ from these estimates and assumptions. The Directors believe that any estimates used in preparing the financial statements are reasonable and prudent. Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the ICAV's business that typically require such estimates are determination of the fair value of financial assets and liabilities. The principal accounting policies applied in the preparation of these financial statements are set out below.

Change in accounting policies

Under previous Irish GAAP, the quoted market price used for financial assets held was the current bid price and the appropriate quoted market price for financial liabilities was the current ask price. Under FRS 102, in accounting for all of its financial instruments, an entity is required to apply either of the following:

a) the full requirements of Section 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS 102;

b) the recognition and measurement provisions of International Accounting Standards ("IAS") 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") as adopted for use in the European Union and the disclosure requirements of Sections 11 and 12 of FRS 102; or

c) the recognition and measurement provisions of International Financial Reporting Standards ("IFRS") 9 "Financial Instruments" ("IFRS 9") and the disclosure requirements of Sections 11 and 12 of FRS 102.

The ICAV has elected to apply the recognition and measurement provisions of IAS 39 and the disclosure requirements of Sections 11 and 12 of FRS 102. The ICAV has early adopted the Amendments to FRS 102, "Fair Value Hierarchy Disclosures", which are effective for accounting periods beginning on or after January 1, 2017. These amendments require the ICAV to categorise its fair value measurements into the levels consistent with the fair value hierarchy set out in International Financial Reporting Standards as adopted for use in the European Union. These amendments did not have any impact on the Fund's financial position or performance.

(a) Basis of Preparation

The ICAV's financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS102"), Irish statute comprising the ICAV Act and the UCITS Regulations. The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through the profit or loss.

The ICAV has availed of the exemption available to open-ended investment funds under Section 7 "Statement of Cash Flows" of FRS 102, not to prepare a cash flow statement on the basis that substantially all of the ICAV's investments are highly liquid and carried at fair value and the ICAV provides a statement of changes in net assets attributable to holders of redeemable participating shares.

All references to net assets throughout this document refer to net assets attributable to holders of Redeemable Participating Shares unless otherwise stated. All the ICAV's assets and liabilities are held for the purposes of being traded or are expected to be realised within one period.

(b) Investments at Fair Value

The ICAV classified all financial instruments, including its investments in debt and equity securities, and related derivatives, as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading at fair value through profit or loss. Financial assets or financial liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term.

Regular-way purchases and sales of investments are recognised on trade date plus one – the date on which the ICAV commits to purchase or sell the asset. Investments are initially recognised at fair value and transaction costs for all financial assets carried at fair value through profit or loss are expensed as incurred. Investments cease to be recognised when the rights to receive cash flows from the investments have expired or the ICAV has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Statement of Comprehensive Income. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and

Notes to Financial Statements – *(continued)*

1. Significant Accounting Policies – (continued)

(b) Investments at Fair Value – (continued)

losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the Statement of Comprehensive Income in the period in which they arise.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for long positions including those held as financial derivative instruments by the ICAV is the current mid-price.

The ICAV may from time to time invest in financial instruments that are not traded in an active market (for example in over-the-counter derivatives). The fair value is determined by using valuation techniques. The ICAV uses a variety of methods and makes assumptions that are based on market conditions existing at each Statement of Financial Position date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realised had a ready market for these instruments existed and the differences could be material. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of amounts recognised in the Statement of Comprehensive Income. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligations to perform or disagree as to the meaning of contractual terms in the agreements, or that there may be unfavourable changes in interest rates or the price of the index or security underlying these transactions.

(c) Single Broker Pricing

The prices used at the period end which have been sourced from a single broker source are the best estimate of fair value as at the period end date. However, there is a degree of uncertainty in respect of these prices. It may not always be possible to close out the positions at the stated mark with the given counterparty. As at June 30, 2016 no prices were sourced using single broker pricing.

(d) Dual Broker Pricing

The prices used at the period end which have been sourced from dual broker sources are the best estimate of fair value as at the period end date. However there is a degree of uncertainty in respect of these prices. It may not always be possible to close out the positions at the stated mark with the given counterparty. As at June 30, 2016 no prices were sourced using dual broker pricing.

(e) Accounting for Investments

Security transactions are accounted for on trade date plus one. Investments are initially recognised at fair value and transaction costs for all "fair-valued-through profit or loss" securities are expensed as incurred. Gains or losses on the sale of securities are calculated by using the First-In-First-Out ("FIFO") basis.

(f) Income from Investments

Interest income and expense are recognised in the Statement of Comprehensive Income for all debt instruments using the effective interest method.

Dividends are credited to the Statement of Comprehensive Income on the dates on which the relevant securities are listed as "ex-dividend". Dividend income is shown gross of any non-recoverable withholding taxes, which is disclosed separately in the Statement of Comprehensive Income.

(g) Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. There are no offsetting financial instruments as at 30 June 2016.

(h) Critical Accounting Estimates and Assumptions

The Sub-Investment Manager of the Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

Fair Value of Derivative Financial Instruments

The ICAV may, from time to time, hold financial instruments that are not quoted in active markets, such as over-the-counter derivatives. Fair values of such instruments are determined by using valuation techniques as discussed in Note 1(b). Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed and compared to the price provided by an independent pricing service provider, where available.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty); volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realised had a ready market for these instruments existed and the differences could be material. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognised in the Statement of Comprehensive Income. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparties to the agreements may default on their obligations to perform or disagree as to the meaning of contractual terms in the agreements, or that there may be unfavourable changes in interest rates or the price of the index or security underlying these transactions.

(i) Equalisation

An equalisation account is maintained so that the amount distributed is the same for all shares of the same type notwithstanding different dates of issue. Equalisation income and expense are recorded in the Statement of Comprehensive Income.

Equalisation Income

A sum equal to that part of the issued price of a share which reflects income (if any) accrued but undistributed up to the date of issue will be deemed to be an equalisation payment and treated as repaid by shareholders in the first dividend to which the shareholder was entitled in the same accounting period as that in which the shares are issued.

Equalisation Expense

A sum equal to that part of the issued price of a share which reflects expense (if any) accrued but undistributed up to the date of issue will be deemed to be an equalisation receipt and treated as repaid to shareholders to the first dividend to which the shareholder was entitled in the same accounting period as that in which the shares are issued.

(j) Expenses

Certain expenses are Share Class specific expenses and are charged directly to the Share Class. General Fund expenses are allocated to the various Share Classes on the basis of relative net asset value. Expenses are accounted for on an accruals basis with the exception of transaction charges relating to the acquisition and realisation of investments which are charged as incurred. Legal fees as stated on page 13 include country registration fees of $200,550.

Notes to Financial Statements – *(continued)*

1. Significant Accounting Policies – (continued)

(k) Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value through profit or loss with transaction costs for such instruments being recognised directly in the Statement of Comprehensive Income.

Transaction costs charged by the Depositary on the settlement of purchases and sales of investments are disclosed within administrator and depositary fees in the Statement of Comprehensive Income for the Fund. Transaction costs on purchases and sales of equities, exchange traded funds and futures contracts are disclosed as transaction costs in the Statement of Comprehensive Income.

Transaction costs on the purchase and sale of bonds, swaps and forward foreign currency contracts are included in the purchase and sale price of the investment. These costs cannot be practically or reliably gathered as they are embedded in the cost of the investment and cannot be separately verified or disclosed.

(l) Foreign Exchange Translation

(a) Functional and presentation currency: Items included in the ICAV's financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). This is U.S. Dollars for the Fund which has adopted the functional currency as the presentation currency for these financial statements.

(b) Purchases and sales of securities, and income and expenses are translated at the rate of exchange quoted on the respective date that such transactions are recorded. Assets and liabilities are translated at the foreign exchange rate at the end of the period. Differences between income and expense amounts recorded and collected or paid are recorded as foreign exchange gains/losses in the Statement of Comprehensive Income.

(m) Forward Foreign Currency Exchange Contracts

A forward foreign currency exchange contract ("forward contract") is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. Forward contracts are used to seek to manage foreign currency risks and to tactically shift portfolio currency risk. Forward contracts are generally entered into as a hedge upon the purchase or sale of a security denominated in a foreign currency. The Fund will realise a gain or loss upon the closing or settlement of the forward transaction. Unrealised appreciation or depreciation on forward contracts is reported in the Statement of Financial Position and Statement of Comprehensive Income. Realised gains and losses are reported with all other foreign currency gains and losses in the Statement of Comprehensive Income. Risks relating to forward contracts include the potential inability of the counterparty to meet the terms of the contract and unanticipated movements in the value of a foreign currency relative to the base currency of the Fund. As at 30 June 2016, forward contracts held are disclosed in the Portfolio of Investments. Forward contracts are fair valued by an independent price source by reference to the price at which a new forward contract of the same size and maturity could be undertaken.

(n) Futures Contracts

Initial margin deposits are made upon entering into futures contracts and are generally made in cash. Futures contracts are fair valued based upon their quoted daily settlement prices. Changes in the value of open futures contracts are recognised as unrealised gains or losses on futures contracts until the contracts are terminated, at which time realised gains and losses are recognised as a realised gain or loss and included in net gain/(loss) on financial assets and financial liabilities at fair value through profit and loss in the Statement of Comprehensive Income. Unrealised gains or losses on futures contracts are shown in the Statement of Financial Position. Realised gains and losses not yet delivered are shown as amounts due to/from broker in the Statement of Financial Position. As at 30 June 2016, the futures contracts held are disclosed in the Portfolio of Investments.

(o) Option Contracts

The premium on purchased put options exercised is subtracted from the proceeds of the sale of the underlying security or foreign currency in determining the realised gain or loss. The premium on purchased call options exercised is added to the cost of the securities or foreign currency purchased. Premiums paid from the purchase of options, which expire unexercised, are treated as realised losses. The unrealised gain or loss on open option positions is calculated and recorded as the fair value of the option less the premium paid on that option. Unrealised gains or losses on open option positions are reflected as assets or liabilities in the Statement of Financial Position.

The premium on written call options exercised is added to the proceeds from the sale of the underlying security or foreign currency in determining the realised gain or loss. The premium on written put options exercised is subtracted from the cost of the securities or foreign currencies purchased. Premiums received from written options, which expire unexercised, are treated as realised gains. As at 30 June 2016, option contracts held are disclosed in the Portfolio of Investments.

(p) Swap Instruments

Swap Instruments are recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Movement in the fair value of the swap instruments are recognised in the Statement of Comprehensive Income under 'Net gain/(loss) on financial assets and liabilities at fair value through profit or loss'. Interest paid and earned from swap instruments are recognised in the Statement of Comprehensive Income under 'Interest'. As at 30 June 2016, swap instruments held are disclosed in the Portfolio of Investments.

Credit Default Swaps

The Fund may enter into credit default swap agreements, provided that (i) the credit default swap agreement must be subject to daily valuation by the Fund and independently verified at least weekly, and (ii) the risks attached to the credit default swap must be independently assessed on a semi-annually basis and the report must be submitted to the Directors for review. The Fund may be either the buyer or seller in a credit default swap transaction. The "buyer" in a credit default contract is obligated to pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If the Fund is a buyer and no event of default occurs, the Fund will lose its investment and recover nothing. On the other hand, if the Fund is a buyer and an event of default does occur, the Fund (the buyer) will receive the full notional value of the reference obligation that may have little or no value. Conversely, if the Fund is a seller and an event of default occurs, the Fund (the seller) must pay the counterparty the full notional value, or "par value", of the reference obligation in exchange for the reference obligation. As a seller, a Fund receives a fixed rate of income throughout the term of the contract, which typically is between six months and three periods, provided that there is no default event. If an event of default occurs, the seller (the Fund) must pay the counterparty the full notional value of the reference obligation.

The Fund purchases credit default swap contracts in order to hedge against the risk of a fall in the capital price, or default, of debt securities they hold. The Fund sells credit default swap contracts in order to get exposure to the rise in the capital price, and the risk of default is transferred from the purchaser of credit default contracts to the Fund as a seller of the credit default swap contract. This involves the risk that the swap may expire worthless and the credit risk that the seller may fail to satisfy its payment obligations to the Fund in the event of a default. The Fund may only enter into such transactions with counterparties rated A- or higher.

Equity Swaps

Equity swaps are agreements between the ICAV and third parties, which allow the ICAV to acquire an exposure to the price movement of specific securities without actually purchasing the securities. The changes in contract values are recorded as unrealised gains or losses and the ICAV recognises a realised gain or loss when the contract is closed.

(q) Short-Term Investments

Certificates of deposit, time deposits and other short-term investments maintained with financial institutions are fair valued at their face value with interest accrued as applicable. As at 30 June 2016, there were no short term investments on held on the Fund.

Notes to Financial Statements – *(continued)*

1. Significant Accounting Policies – (continued)

(r) Exchange Traded Funds

The Fund may invest in exchange traded funds ("ETFs"). ETFs are securities that track an index, a commodity or a basket of assets like an index fund, but trade like a stock on an exchange. These securities are subject to market fluctuations and their current value is determined in the same manner as for other securities. As at 30 June 2016, the Fund held one ETF position.

2. Investment Objectives and Policies

Investment objectives and investment policies for the Fund are listed in the Directors' Report.

3. Efficient Portfolio Management

Subject to the conditions and within the limits from time to time laid down by the Central Bank, and except as otherwise stated in the investment objective and policies of a Fund, the Investment Managers and/or Sub-Investment Manager(s) may employ investment techniques and instruments such as futures, forward foreign currency contracts and other derivatives for investment purposes or for efficient portfolio management purposes. Furthermore, new techniques and instruments may be developed which may be suitable for use by the Fund in the future and a Fund may employ such techniques and instruments subject to the prior approval of, and any restrictions imposed by, the Central Bank.

For UCITS which have engaged in efficient portfolio management techniques, under UCITS Notice 8.5, a UCITS is required to disclose the revenues arising from repurchase agreements and stocklending transactions for the entire reporting period together with the direct and indirect operational costs and fees incurred. There were no such techniques employed for the period end 30 June 2016.

There was no repurchase agreements or security lending contracts entered into during the period ended 30 June 2016.

4. Operating Expenses and Other Related Party Transactions

Pursuant to the Investment Management Agreement between the ICAV and Legg Mason Investments (Europe) Limited (the "Investment Manager"), the Investment Manager is entitled to receive an investment management fee out of the assets of the Fund for its services as the Investment Manager, which accrues on each Dealing Day and is payable monthly in arrears. Pursuant to the Sub-Investment Management Agreement, the Investment Manager shall pay the Sub-Investment Manager a Sub-Investment Management Fee and out-of-pocket expenses of the Sub-Investment Manager out of its own Investment Management Fee. The maximum investment management fee for each launched class, at 30 June 2016 (expressed as a percentage of the Fund's net asset value attributable to such class) is as follows:

Permal Alternative Income Strategy	Maximum Investment Management Fee*
Class A US$ Accumulating	2.25%
Class A US$ Distributing Plus (Q)	2.25%
Class A Accumulating Euro (Hedged)	2.25%
Class A Euro Distributing Plus e (M)	2.25%
Class A Euro Distributing Plus (Q) (Hedged)	2.25%
Class E US$ Accumulating	2.50%
Class R US$ Accumulating	1.65%
Class R US$ Distributing Plus (e)(Q)	1.65%
Class R Euro Accumulating (Hedged)	1.65%
Class R Euro Distributing Plus (e)(Q) (Hedged)	1.65%
Class S US$ Accumulating	1.50%
Class S US$ Distributing Plus (Q)	1.50%
Class S Euro Accumulating E (Hedged)	1.50%
Class S Euro Distributing Plus (Q) (Hedged)	1.50%
Class X Euro Accumulating (Hedged)	1.65%
Premier Class US$ Accumulating	1.65%
Premier Class US$ Distributing Plus (Q)	1.65%
Premier Class Accumulating Euro (Hedged)	1.65%
Premier Class Euro Distributing Plus (Q) (Hedged)	1.65%

* The maximum Management Fee includes a combination of the Investment Management Fee and Distribution Fee payable by the ICAV to the Investment Manager and the Distributor on each Share Class of the Fund.

Expense Waivers

The Investment Manager may voluntarily undertake to reduce or waive its investment management fee or to make other arrangements to reduce the expenses of the Fund to the extent that such expenses exceed such lower expense limitation as the Investment Manager may, by notice to the Shareholders, voluntarily declare to be effective. The Investment Manager has currently undertaken to reimburse the Fund so that "Specified Expenses" (as described below) of each Class in the Fund's financial year do not exceed the percentage of the average daily Net Asset Value of such Class listed above. "Specified Expenses" is defined to include all expenses incurred in the business of the Fund, which include offering costs, administration fees, investment management fees, investor servicing fees and custody fees. "Specified Expenses" does not include the following: (i) establishment expenses relating to the Fund; (ii) Performance Fees or Additional Performance Fees; (iii) distributor fees; (iv) Eligible Collective Investment Scheme fees and expenses; (v) brokerage and trading costs; (vi) interest payments; (vii) taxes; or (viii) extraordinary expenses. The Investment Manager may terminate or modify this arrangement at any time at its sole discretion upon 30 days' notice in writing to the Fund's Shareholders.

During the period ended 30 June 2016 the total amount reimbursed on the Fund was $303,978, which included Investment Manager fees waived of $56,000.

Shareholder service fees are payable on all classes except: Class S Share Classes and Premier Share Classes, (each as defined in the Prospectus). During the period ended 30 June 2016 the shareholder services fees waived on the Permal Alternative Income Strategy Fund were US$2,673.

Administrator and Depositary Fees

State Street Custodial Services (Ireland) Limited acts as Depositary and State Street Fund Services (Ireland) Limited acts as Administrator to the ICAV. For administration, accounting, shareholder, trustee and custodial services, they collectively receive from the Fund a fee of up to 0.20% per annum of the net asset value of the Fund.

Performance Fees

The Sub-Investment Manager and each of the Sub-Advisers may be entitled to receive a fee (a ''Performance Fee'') depending on the performance of the share classes of the Fund. For the purposes of calculating such performance fees, the term "Performance Period" means the period beginning on 1 July and ending on 30 June of each year, with the exception of the first Performance Period for a Share Class, which will begin upon the initial issue of Shares in that Share Class and end on the following 30 June and the first Performance Period for a Portfolio, which will begin upon the appointment of such Sub-Adviser to manage said Portfolio and will end on the following 30 June.

Sub-Investment Manager Performance Fee: Under the terms of the Sub-Investment Management Agreement, the ICAV will pay to the Sub-Investment Manager out of the assets of the Fund a Performance Fee on each Share Class; provided that the Performance Fee on a Share Class is payable only if the Net Asset Value of such Share Class (before any accruals of Performance Fees or Additional Performance Fees, as defined below) has increased by at least 4 per cent at the end of the relevant Performance Period from the Net Asset Value of such Share Class as at the end of the prior Performance Period, or in the case of the first Performance Period, the Initial Offer Price of such Share Class (the "Sub-Investment Manager Hurdle Rate"). The Performance Fee shall be equal to 15 per cent of the New Net Appreciation of the relevant Share Class during the Performance Period above the Sub-Investment Manager Hurdle Rate.

Notes to Financial Statements – *(continued)*

4. Operating Expenses and Other Related Party Transactions – (continued)

Performance Fees – (continued)

The Performance Fee (if any) will accrue each Dealing Day. The amount accrued on each Dealing Day will be determined by calculating the Performance Fee that would be payable if that day was the last day of the current Performance Period. The Performance Fee will be payable by the Fund to the Sub-Investment Manager annually in arrears within 45 calendar days of the end of each Performance Period. The calculation of the Performance Fee shall be based upon unaudited information but will be verified by the Depositary.

Sub-Adviser Performance Fees: Under the terms of the sub-advisory agreements between the Sub-Investment Manager and the Sub-Advisers, the Sub-Investment Manager shall pay each Sub-Adviser a performance fee (the "Sub-Adviser Performance Fee"); provided that the Sub-Adviser Performance Fee is payable on a Sub-Adviser's Portfolio only if the Net Asset Value of such Portfolio (before any accruals of Sub-Adviser Performance Fees) has increased by at least 4 per cent at end of relevant Performance Period from the Net Asset Value of such Portfolio as at the end of the prior Performance Period (the "Sub-Adviser Hurdle Rate"). The Sub-Adviser Fee shall be equal to 10 per cent of the New Net Appreciation of the Portfolio allocated to such Sub-Adviser during the Performance Period above the Sub-Adviser Hurdle Rate. The Sub-Adviser is entitled to receive such Sub-Adviser Performance Fee until such time, if ever, that the Sub-Adviser ceases to manage the Portfolio (the "Term of Appointment").

The Sub-Adviser Performance Fee will be calculated and accrued daily during the Term of Appointment and for each Performance Period. Where a Sub-Adviser is entitled to receive a Sub-Adviser Performance Fee in a Performance Period, all or part of that Sub-Adviser Performance Fee, depending upon the arrangements with that Sub-Adviser, will be paid to the Sub-Adviser for that Performance Period. Upon the termination of a Sub-Adviser's appointment, any Sub-Adviser Performance Fees owed will be paid in full. The calculation of any Sub-Adviser Performance Fee must be verified by the Depositary.

Additional Performance Fee: The Sub-Investment Manager will pay the Sub-Adviser Performance Fees for a particular Performance Period out of the Performance Fee paid to it for such Performance Period. However, if, as of the end of any Performance Period, the sum of all Sub-Adviser Performance Fees payable to Sub-Advisers in respect of a Performance Period exceeds the Performance Fee payable to the Sub-Investment Manager, the Fund will pay an additional amount (the "Additional Performance Fee") to the Sub-Investment Manager which shall, in turn, remit the Additional Performance Fee to the relevant Sub-Adviser to cover the shortfall. This may occur where, for example, during a Performance Period one or more Sub-Advisers add value in respect of their Portfolio, while other Sub-Advisers add negative value with respect to their respective Portfolios. Any such Additional Performance Fee paid by the Fund will be deducted from the Sub-Investment Manager's Performance Fee before payment to the Sub-Investment Manager in subsequent Performance Periods; provided that upon a redemption, the amount of the Additional Performance Fee to be deducted from the Sub-Investment Manager's Performance Fee in subsequent Performance Periods shall be decreased by an amount proportionate to the percentage of outstanding Shares redeemed in the relevant Class. For the avoidance of doubt, if the Fund or the Sub-Investment Management Agreement is terminated following the payment of an Additional Performance Fee, the Sub-Investment Manager shall not be required to reimburse the Fund such Additional Performance Fee.

Performance fees accrued for the period ended 30 June 2016 were $2,351.

Directors' Remuneration

Directors' fees accrued for the period ended 30 June 2016 were $6,439.

Director's fees are not payable in respect of Joseph LaRocque, Jane Trust (Appointed on 23 March 2016) and Rob Shearman (Resigned on 23 March 2016) who are the employees of the Investment Manager or its affiliates.

Auditors' Remuneration

Fees paid to the auditors, PricewaterhouseCoopers of $24,979 in respect of the financial period, relate to statutory audit of the financial statements of the ICAV.

During the financial period ended 30 June 2016, US$4,436 was also paid for non-audit services. There were no out-of-pockets expenses paid to PricewaterhouseCoopers.

Other Related Party Transactions

As at 30 June 2016, a wholly owned company of Legg Mason Inc., LM International Holdings LP, held 0.02% of the issued share capital of the Fund.

5. Distributions to Holders of Redeemable Participating Shares

Distributing Share Classes

The letter in parentheses at the end of the name of each Distributing Share Class indicates a particular frequency of dividend declarations and dividend payments, as detailed in the following table.

Distributing Share Class Designation	Frequency of Dividend Declarations	Frequency of Dividend Payments
(D)	Daily	Monthly
(M)	Monthly	Monthly
(Q)	Quarterly	Quarterly (March, June, September, December)
(S)	Semi-Annually	Semi-Annually (March, September)
(A)	Annually	Annually (March)

For each Distributing Share Class, at the time of each dividend declaration: (1) all, or some portion of, net investment income, if any, will be declared as a dividend; and (2) all, or some portion, of realised and unrealised capital gains net of realised and unrealised capital losses may be, but is not required to be, declared as a dividend.

Distributing Plus Share Classes, may charge certain fees and expenses to capital rather than income, and there is an increased risk that investors in these Share Classes may not receive back the full amount invested when redeeming their holding. The declaration of distributions in Distributing Plus Share Classes which may charge certain fees and expenses to capital rather than income could result in the erosion of capital for investors in those Distributing Plus Share Classes and that increased income will be achieved by foregoing some of the potential for future capital growth. All expenses of the Distributing Plus (e) Share Classes would be charged to capital. The Distributing Plus (e) Share Classes paid a distribution of $905 at 30 June 2016.

Accumulating Share Classes

With respect to Accumulating Share Classes, it is intended that, in the normal course of business, distributions will not be declared and that any net investment income attributable to each Accumulating Share Class will be accumulated daily in the respective net asset value per share of each respective Share Class.

6. Share Capital and Redeemable Participating Shares

Share Capital

The ICAV was established with an initial share capital of Euro 2 represented by 2 subscriber shares of no par value. Shareholders of these subscriber shares are entitled to attend and vote at all of the meetings of the ICAV, but are not entitled to participate in the dividends or net assets of any Fund or of the ICAV.

Redeemable Participating Shares

The share capital of the ICAV shall at all times equal the net asset value. The Directors are empowered to issue up to five hundred billion shares of no par value in the ICAV at the net asset value per share on such terms as they may see fit. There are no rights of pre-emption upon the issue of shares in the ICAV.

Each of the shares entitles the Shareholder to participate equally on a pro rata basis in the dividends, where applicable, and net assets of the Fund in respect of which they are issued, save in the case of dividends declared prior to becoming a shareholder.

The proceeds from the issue of shares shall be applied in the books of the ICAV to the Fund and shall be used in the acquisition on behalf of the Fund of assets in which the Fund may invest. The records and accounts of the Fund shall be maintained separately.

Notes to Financial Statements – *(continued)*

6. Share Capital and Redeemable Participating Shares – (continued)

Redeemable Participating Shares – (continued)

The Fund has different Share Classes offered as indicated in the ICAV's Instrument of Incorporation. These different classes of shares differ principally in terms of their sales charges, fees, rates of expenses, distribution policy, and currency denomination. Investors are thus able to choose a Share Class that best suits their investment needs, considering the amount of investment and anticipated holding period.

Each Share Class is designated as a Distributing Share Class or an Accumulating Share Class. Accumulating Share Classes do not distribute net income, net realised or net unrealised capital gains whereas Distributing Share Classes will distribute at certain intervals, which will vary depending on the letter in parentheses at the end of the name of the Distributing Share Class, as explained under the Distributions Note 4 above. In addition, the ICAV has subscriber shares outstanding. The subscriber shares do not entitle the holders to participate in the assets of any Fund. As at 30 June 2016 there were 2 subscriber shares in issue. The subscriber shares are held by Fand Limited and Attleborough Limited.

The Fund may offer Share Classes designated in currencies other than the base currency of the Fund. For each such Share Class, unless indicated by "(Hedged)" in the name of the share class, the Investment Manager or Sub-Investment Manager will not employ any techniques to hedge the Share Class's exposure to changes in exchange rates between the Base Currency of the Fund and the currency of the Share Class.

7. Taxation

Under current Irish law and practice, the ICAV qualifies as an investment undertaking as defined in Section 739B of the Taxes Consolidation Act, 1997 (as amended). On that basis, the ICAV will not generally be liable to Irish tax in respect of its income and gains, other than on the occurrence of a chargeable event. Generally a chargeable event arises on any distribution, redemption, repurchase, cancellation, transfer of shares or on the ending of a 'Relevant Period', a 'Relevant Period' being an eight year period beginning with the acquisition of the shares by the shareholders and each subsequent period of eight years beginning immediately after the preceding Relevant Year.

No Irish tax will arise on the ICAV in respect of chargeable events in respect of:

(i) a shareholder who is neither Irish resident nor ordinarily resident in Ireland for tax purposes, at the time of the chargeable event, provided an appropriate valid declaration is in place, or the ICAV has been authorised by Irish Revenue to make gross payments in the absence of appropriate declarations; and

(ii) certain exempted Irish tax resident shareholders who have provided the ICAV with the necessary signed statutory declarations.

In addition, any transaction (which might otherwise be a chargeable event) in relation to shares held in a recognised clearing system as designated by order of the Irish Revenue Commissioners will not constitute a chargeable event.

In the absence of an appropriate declaration, the ICAV will be liable to Irish tax on the occurrence of a chargeable event. There were no chargeable events during the period under review.

Capital gains, dividends and interest received may be subject to taxes, including withholding taxes imposed by the country of origin and such taxes may not be recoverable by the Fund or its shareholders.

8. Cash and Cash Equivalents

Cash at bank and cash held for diversification is included within cash and cash equivalents. Cash at bank is held with State Street Bank and Trust and its Sub-depositories. Cash held for diversification is held with Citibank and BNP Paribas.

Counterparty	Cash at bank (US$000)	Cash held for diversification (US$000)
BNP Paribas	—	38,635
Citibank	—	69,254
State Street Bank and Trust	100,943	—
Total amount	**100,943**	**107,889**

Cash collateral relates to cash provided to brokers for collateral purposes. As at 30 June 2016, cash collateral is held for options and swaps by JP Morgan, Barclays Bank, Credit Suisse and Morgan Stanley.

Counterparty	Cash collateral (US$000)
Barclays Bank	10
Credit Suisse	120
JP Morgan	2,310
Morgan Stanley	7,155
Total amount	**9,595**

Cash at broker relates to cash provided to brokers for margin requirements for futures, options and swaps. As at 30 June 2016, Margin cash is held with Credit Suisse, Morgan Stanley and Barclays Bank.

Counterparty	Margin cash (US$000)
Barclays Bank	3,006
Credit Suisse	1,541
Morgan Stanley	716
Total amount	**5,263**

The credit rating of Brokers is detailed in the credit risk note (Note 13.2).

9. Commitments and Contingent Liabilities

There were no significant commitments or contingent liabilities at the Statement of Financial Position date.

10. Soft Commission Arrangements

The Investment Manager or Sub-Advisers may direct transactions to brokers in return for research services. In such circumstances, the Investment Manager or Sub-Advisers may enter into soft commission agreements or similar arrangements with such brokers. Under such arrangements, the Investment Manager or Sub-Advisers must ensure that the broker or counterparty to the arrangement has agreed to provide best execution to the Fund and that the benefit provided assists the Investment Manager or Sub-Advisers in its provision of investment services to the Fund. The total value of soft commission arrangements entered into on behalf of the Fund for the period ended 30 June 2016 is US$3,334.

Notes to Financial Statements – *(continued)*

11. Exchange Rates

The following exchange rates were used in these financial statements to obtain the equivalent U.S. Dollar amounts.

USD	Country	Exchange rates as at 30 June 2016
	Australian Dollar	1.3408
	British Pound	0.7512
	Canadian Dollar	1.2920
	Euro	0.9011
	Hong Kong Dollar	7.75810
	Japanese Yen	103.2650

12. Direct Brokerage Services

During the period ending 30 June 2016 the ICAV did not utilise any direct brokerage services.

13. Risk Exposure and Risk Management

The ICAV has appointed Legg Mason Investments (Europe) Limited as Investment Manager for the Fund (the "Investment Manager"). Legg Mason Investments (Europe) Limited ("LMIE") has made the decision to delegate all responsibility for providing discretionary portfolio management services to the Fund, to a Sub-Investment Manager, and Risk Manager ("EnTrustPermal Ltd.") of the Fund, EntrustPermal Ltd. provided that LMIE remains responsible to the Fund for the performance of its agreed upon obligations. EnTrustPermal Ltd. is responsible for monitoring the Fund's use of FDIs against regulatory limits and measuring the risks associated with FDI used by the Fund and their contribution to the Fund's overall risk profile. The monitoring is done by EnTrustPermal Ltd. at the Sub-Adviser sleeve level and the overall Fund portfolio level. Day-to-day risk management of the financial instruments (including FDIs) held by the Fund is the responsibility of the EnTrustPermal Ltd. and Sub-Adviser.

The securities and instruments in which the Funds invest are subject to normal market fluctuations and other risks inherent in investing in such investments, and there can be no assurance that any appreciation in value will occur. There can be no assurance that a Fund will achieve its investment objective.

In pursuing its investment objectives, the ICAV holds financial derivative instruments ("FDIs"). The ICAV's financial derivative instruments held at 30 June 2016 are disclosed in the Portfolio of Investments.

The main risks arising from the ICAV's financial instruments are market risk, liquidity risk and credit risk.

EnTrustPermal Ltd. operates a risk management process on behalf of the Fund in relation to the Fund's use of FDIs which allows EnTrustPermal Ltd. to measure, monitor and manage various risks associated with FDIs and which is intended to ensure that the Fund's FDI exposure remains within the limits described below. The risk management process is described in a statement, a copy of which has been filed with the Central Bank, and which will be updated from time to time to include any additional FDIs which a Sub-Adviser or EnTrustPermal Ltd. proposes to employ on behalf of the Fund (the "Risk Management Process"). Until such time as the Risk Management Process has been updated and cleared by the Central Bank, however, neither a Sub-Adviser nor EnTrustPermal Ltd. will use any FDI which is not for the time being included in the Risk Management Process.

EnTrustPermal Ltd. pursuant to various sub-adviser agreements, delegates certain investment management responsibilities in relation to Portfolios to Sub-Advisers representing distinct investment styles and expertise in an asset class.

The success of the Fund depends upon the ability of EnTrustPermal Ltd. to allocate the Fund's assets to various Investment Strategies and to select the best mix of Sub-Advisers, as well as the ability of the Sub-Advisers to develop and implement Investment Strategies that achieve the Fund's investment objective. A Sub-Adviser's inability to effectively hedge an Investment Strategy that it utilises may cause the assets of the Fund invested with such Sub-Adviser to significantly decline in value and could result in substantial losses to the Fund. Moreover, subjective decisions made by the Sub-Investment Manager and/or the Sub-Advisers may cause the Fund to incur losses or to miss profit opportunities on which it may otherwise have capitalised.

This risk is managed through EnTrustPermal Ltd's rigorous manager selection process. EnTrustPermal Ltd. has a disciplined and repeatable process for identifying and selecting managers, allocating capital to those managers and then monitoring their performance. This process combines a bottom-up and top-down approach that seeks to assemble the optimal mix of Sub-Advisers and Investment Strategies, coupled with ongoing evaluation and analysis.

The ICAV, in conjunction with the EnTrustPermal Ltd. has determined that certain of its material risks are market risk, credit risk and liquidity risk. In respect of the use of FDIs, the risks are counterparty risk, credit risk, increased margin calls and unlimited risk of loss. Further details of these and other risks are set out below and in the Instrument of Incorporation under "Risk Factors".

Market risk includes market price risk, foreign currency risk, interest rate risk and other price risk.

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The maximum price risk resulting from the ownership of financial instruments is determined by the fair value of financial instruments. The Sub-Investment Manager may consider the asset allocation of the portfolios in order to minimise the risk associated with particular countries, industry sectors or securities while continuing to follow the Fund's investment objective as outlined in the Directors' Report. Risk is managed by the Sub-Adviser through careful selection of securities and other financial instruments within specified limits and investment mandates. Details of each Fund's investment policies are outlined in the Directors' Report. Details of the Fund's financial assets and financial liabilities are presented on the Statement of Financial Position.

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in the rate of exchange between the currency in which the financial asset or financial liability is denominated and the functional currency of the Fund. The value of the investments of the Fund denominated in a currency other than the functional currency may rise and fall due to exchange rate fluctuations by the relevant currencies. There is a risk that large exchange rate fluctuations may have a significant impact on the performance of the Fund.

Where the Fund holds investments in a currency other than the Fund's functional currency, the Sub-Adviser may manage foreign currency risk by either hedging foreign currency into the functional currency of the Fund or alternatively by diversifying investments across multiple currencies.

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The Fund which holds fixed interest rate debt securities and overdraft positions and is exposed to interest rate risk where the value of these securities or loans may fluctuate as a result of a change in interest rates. Holdings in floating and variable rate securities may also be subject to interest rate risk although to a lesser degree. Cash assets held via the Depositary have the potential to yield interest income, the level of which will fluctuate according to the prevailing level of market interest rates.

The Fund invests in interest bearing financial assets and financial liabilities which expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on it's financial positions and cash flows. The value of investments in fixed rate interest bearing securities may be subject to price volatility due to changes in interest rates. Fluctuations in market interest rates will impact upon the level of interest received by a Fund.

An increase in interest rates will generally reduce the value of debt securities that are issued and outstanding, while a decline in interest rates will generally increase the value of debt securities that are issued and outstanding. The magnitude of these price fluctuations will be greater when the maturity of the outstanding securities is longer. Changes in the value of securities held by the Fund when interest rates change mean that the Fund's net asset value per share can go up or down because of the effect on the value of the Fund's portfolio of debt securities.

EnTrustPermal Ltd. monitors the interest-rate environment and evaluates risks on major strategies. Interest rate risk is controlled by monitoring maturities and duration relative to the Funds' benchmark. Techniques such as factor analysis and key rate duration measurement are used to evaluate portfolio curve exposures.

Notes to Financial Statements – *(continued)*

13. Risk Exposure and Risk Management – (continued)

The risks involved with investing in equities include changing economic conditions, industry and ICAV conditions and security selection. Investing in fixed income securities are also subject to interest rate risk, credit risk, maturity risk and market risk. International securities are subject to changing exchange rates, less liquid markets and political and economic instability depending on the country. Developing markets are subject to these same risks however it may be to a greater degree. For the purpose of efficient portfolio management, the Fund may enter into exchange traded over-the-counter ("OTC") derivatives, including but not limited to, futures, swaps, forwards, options and warrants and may enter into stock lending agreements.

The European Investment Committee (the "Committee") has been established within Legg Mason to oversee the delegation of investment management responsibilities for the Fund. The Committee is comprised of members who, as a group, have experience and specialised knowledge in such areas as investment management including equity, fixed income and derivatives; investment analysis and reporting; risk management; and compliance. The Committee, on behalf of the Investment Manager, is responsible for overseeing that the Fund is managed within the terms of the Funds' investment guidelines and limits set out in the Prospectus and the UCITS Regulations as well EnTrustPermal Ltd's own internal investment guidelines and limits. The Committee generally meets once a month to oversee that the Fund is being managed in accordance with these limits and regulatory requirements.

13.1. Market Risk

The Fund invests in FDIs and seeks to limit the market risk and leverage created through the use of derivatives by using a sophisticated risk measurement technique known as "value-at-risk" (the "VaR approach").

EnTrustPermal Ltd. uses an absolute VaR approach to measure global exposure in order to control the Fund's market risk volatility. This procedure ensures that the "leverage effect" of utilizing FDI is not significant enough to cause disproportionate losses to the Fund's total value. To ensure that maximum VaR targets at the Fund level are achieved, EnTrustPermal Ltd. will generally require all Sub-Advisers to manage their respective "sleeves" to the same VaR parameters. Given the Fund's multimanager structure, EnTrustPermal Ltd. may permit a Sub-Adviser to manage its "sleeve" to a higher or lower maximum one-month VaR limit detailed below.

VaR is a statistical methodology that seeks to predict, using historical data, the likely maximum loss that a Fund could suffer, calculated to a specific (e.g., 99 per cent) confidence level. The Fund uses an "absolute" VaR model where the measurement of VaR is relative to the Net Asset Value of the Fund. A VaR model has certain inherent limitations and it cannot be relied upon to predict or guarantee that the size or frequency of losses incurred by the Fund will be limited to any extent. As the VaR model relies on historical market data as one of its key inputs, if current market conditions differ from those during the historical observation period, the effectiveness of the VaR model in predicting the VaR of the Fund may be materially impaired. Investors may suffer serious financial consequences under abnormal market conditions.

The effectiveness of the VaR model could be impaired in a similar fashion if other assumptions or components comprised in the VaR model prove to be inadequate or incorrect.

The Fund uses an absolute VaR model, in accordance with the requirements of the Central Bank and is subject to an absolute VaR limit of 20% of the Fund's Net Asset Value, based on a 20 business day holding period and a 99 per cent confidence interval. However, the Fund may from time to time experience a change in Net Asset Value over a 20 business day holding period greater than 20% of Net Asset Value. The absolute VaR for the Fund as at June 30, 2016 is 2.24%.

In addition to using the VaR approach, EnTrustPermal Ltd. will monitor leverage levels on a daily basis to monitor changes due to market movements. In addition, the respective Sub-Adviser of the Fund shall carry out pre-trade testing to consider the impact that the trade would have on the Fund's overall leverage and to consider the risk/reward levels of the trade. When reviewing the Fund's portfolios against investment and risk limits, EnTrustPermal Ltd. will highlight any Sub-Advisers which have taken positions that are close to the maximum permitted and keep them under review until the position is reduced or other changes in the Fund's portfolio bring the position down to a lower relative size. The lowest, average and highest utilisation of the VaR limit at a 99% confidence level for a 20 day time horizon were as follows:

		As at June 30, 2016	
	Minimum	**Average**	**Maximum**
Permal Alternative Income Strategy	0.22%	1.77%	2.94%

For a Fund using VaR, leverage is calculated as the sum of the notionals of the derivatives used.

Average level of leverage employed were as follows:

	As at June 30, 2016
Permal Alternative Income Strategy	357.89%

(a) Foreign Currency Risk

A portion of the financial assets of the Fund may be denominated in currencies other than the U.S. Dollar (the functional currency of the Fund) with the effect that the Statement of Financial Position and total return can be significantly affected by currency movements. Changes in exchange rates between currencies or the conversion from one currency to another may cause the value of the Fund's investments to diminish or increase. Currency exchange rates may fluctuate over short periods of time. They generally are determined by supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates can be affected unpredictably by intervention (or the failure to intervene) by governments or central banks, or by currency controls or political developments. If the currency in which a Fund's portfolio investment is denominated appreciates against the Fund's Base Currency, the Base Currency value of the security will increase. Conversely, a decline in the exchange rate of the currency would adversely affect the value of the security expressed in the Base Currency of the Fund. The Fund using FDI may employ techniques and instruments that are intended to provide protection against exchange risks in the context of the management of its assets and liabilities (i. e., currency hedging) by gaining an exposure to one or more foreign currencies or otherwise altering the currency exposure characteristics of securities by the Fund (i.e., active currency positions) and may also employ such techniques and instruments for the purpose of attempting to enhance the Fund's return.

The following table set out the ICAV's material exposure to monetary foreign currency risk as at 30 June 2016. The table below also details currency sensitivity analysis for the ICAV. The sensitivity analysis illustrates the impact of an exchange rate increase or decrease between the USD and the monetary assets and monetary liabilities denominated in foreign currency relevant to the ICAV. This analysis is based on the assumption that all other variables remain constant. The impact on the ICAV is the change in the NAV of the Fund in terms of USD (the functional currency of the Fund). The sensitivity analysis details the effect of a change in exchange rates on monetary assets and monetary liabilities only.

Permal Alternative Income Strategy Fund **Currency**	**Monetary assets/ (liabilities)**** **US$000**	**Non-monetary assets** **US$000**	**Net financial assets/(liabilities)**** **US$000**	**Currency sensitivity analysis*** **US$000**
Australian Dollar	(31)	–	(31)	(1.55)
Brazilian Real	228	–	228	11.40
Canadian Dollar	(62)	–	(62)	(3.10)
Euro	17,434	141	17,575	878.75
Hong Kong Dollar	(22)	–	(22)	(1.10)
Indian Rupee	(24)	–	(24)	(1.20)
Japanese Yen	201	–	201	10.05
Mexican Peso	(46)	–	(46)	(2.30)
New Zealand Dollar	6	–	6	0.30
Norwegian Krone	(19)	–	(19)	(0.95)
Polish Zloty	(11)	–	(11)	(0.55)

Notes to Financial Statements – *(continued)*

13. Risk Exposure and Risk Management – (continued)

13.1. Market Risk – (continued)

Permal Alternative Income Strategy Fund Currency	Monetary assets/ (liabilities)** US$000	Non-monetary assets US$000	Net financial assets/(liabilities)** US$000	Currency sensitivity analysis* US$000
Pound Sterling	459	–	459	22.95
South African Rand	(4)	–	(4)	(0.20)
Swedish Krona	(8)	–	(8)	(0.40)
Turkish Lira	–	–	–	–

* At 30 June 2016, had the exchange rate increased or decreased by 5% with all other variables held constant, the increase or decrease respectively in the value of the Fund's monetary assets and liabilities, denominated in currencies other than the base currency of the Fund.

** Values less than 500 are show as "– ".

(b) Interest Rate Risk

Interest rate risk is the risk that the value of a debt security will fall when interest rates rise. The price of debt securities tend to vary inversely with market interest rates. The value of such securities is likely to decline in times of rising interest rates. When rates fall, the value of these investments is likely to rise. The longer the time to maturity the greater are such variations.

Assets	Up to 1 year US$000	1 to 5 years US$000	Over 5 years US$000	Non-interest Bearing US$000	Total US$000
Cash	208,832	–	–	–	208,832
Amounts due from broker	5,263	–	–	–	5,263
Cash collateral	9,595	–	–	–	9,595
Investments	25,490	17,002	58,413	24,075	124,980
Financial Derivative Instruments	–	556	–	2,405	2,961
Other assets	–	–	–	2,502	2,502
Total Assets	**249,180**	**17,558**	**58,413**	**28,982**	**354,133**
Financial Derivative Instruments	–	(977)	–	(6,941)	(7,918)
Other liabilities	–	–	–	(15,877)	(15,877)
Total Liabilities	**–**	**(977)**	**–**	**(22,818)**	**(23,795)**
					330,338

(c) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

The Fund is exposed to market price risk arising from their investments in transferable securities and derivatives. The movements in the prices of these investments result in movements in the performance of the Fund.

Legg Mason has established the Legg Mason North Atlantic Fund Valuation Committee, (the "Valuation Committee") to oversee the implementation of the valuation policies and procedures adopted by the Board of Directors (the "Board"). The Valuation Committee, including the Chairperson, shall consist of employees of entities within the Legg Mason Group of Companies, with qualifications deemed appropriate by Legg Mason for service on the Committee. Representatives of Legg Mason Legal and other departments, as necessary, may serve the Committee in an advisory capacity. The Valuation Committee meets on a monthly basis to review all securities which are manually priced, broker priced, fair valued, illiquid or stale. A Valuation Committee meeting, however, may be called at any time to consider any question or issue that falls under their procedures, Valuation Committee meetings can be in person, or via email or other writing.

The Fund entered into derivative contracts during the year. The value of derivatives is based on certain underlying stocks or bonds, interest rates, currencies or indices's and includes futures, options, options on futures and swap agreements. Derivatives may be hard to sell at an advantageous price or time and are sensitive to changes in the underlying security, interest rate, currency or index. Therefore, derivatives can be highly volatile and could result in a loss to the Fund. Refer to the respective Fund's Portfolio of Investments for details of other open derivative positions as at 30 June 2016.

Fair Value Estimation

The ICAV classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Investment Manager. The Investment Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

For each class of assets and liabilities not measured at fair value in the Statement of Financial Position but for which fair value is disclosed, FRS 102 requires the ICAV to disclose the level within the fair value hierarchy which the fair value measurement would be categorised and a description of the valuation technique and inputs used in the technique.

Assets and liabilities not carried at fair value are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Cash and cash equivalents include deposits held with banks and other short-term investments in an active market and they are categorised as Level 2.

Receivable for investments sold and other receivables include the contractual amounts for settlement of trades and other obligations due to the ICAV. Payable for investments sold and other payables represent the contractual amounts and obligations due by the ICAV for settlement of trades and expenses. All receivable and payable balances are categorised as Level 2.

Notes to Financial Statements – *(continued)*

13. Risk Exposure and Risk Management – (continued)

13.1. Market Risk – (continued)

The puttable value of redeemable shares is calculated based on the net difference between total assets and all other liabilities of each Fund within the ICAV in accordance with the Funds' offering documentation. These shares are not traded on an active market. A demand feature is attached to these shares, as they are redeemable at the holders' option and can be put back to the Funds at any dealing date for cash/assets equal to a proportionate share of the Fund's NAV attributable to the share class.

The fair value is based on the amount payable on demand, discounted from the first date that the amount could be required to be paid. The impact of discounting in this instance is not material. As such, Level 2 is deemed to be the most appropriate categorisation for net assets attributable to holders of redeemable shares held.

All forward foreign exchange contracts are classified as Level 2 since they are valued using observable inputs but are not quoted in an active market.

The ICAV did not hold any investments classified within level 3 at 30 June 2016. There were no transfers between levels during the period ended 30 June 2016.

The following table analyses under the fair value hierarchy the Funds' financial assets and financial liabilities measured at fair value at 30 June 2016:

	Permal Alternative Income Strategy Fund as at 30 June 2016 (000's)
Level 1	
Bonds	$ –
Equity Instruments	24,075
Derivative assets held for trading	751
Derivative liabilities held for trading	(32)
	24,794
Level 2	
Bonds	100,905
Equity Instruments	–
Derivative assets held for trading	2,210
Derivative liabilities held for trading	(7,886)
	95,229
Level 3	
Bonds	–
Equity Instruments	–
Derivative assets held for trading	–
Derivative liabilities held for trading	–
Total Investments	**$120,023**

13.2. Credit Risk

Credit risk is the risk that a counterparty to or issuer of a financial instrument will fail to discharge an obligation or commitment that it has entered into with a Fund. The ICAV will be exposed to credit risk on parties with whom it trades and will also bear the risk of settlement default. The Sub-Advisers minimise concentrations of credit risk by undertaking transactions with a large number of brokers and counterparties on recognised and reputable exchanges. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund will be exposed to credit risk on the counterparties with which it trades in relation to forward contracts and other derivative financial instruments that are not traded on a recognised exchange. Such instruments are not afforded the same protections as may apply to participants trading swaps, futures or options on organised exchanges, such as the performance guarantee of an exchange clearing house. The Fund will be subject to the possibility of the insolvency, bankruptcy or default of a counterparty with which the Fund trades such instruments, which could result in substantial losses to the Fund.

The ICAV is exposed to credit risk on the OTC counterparties with whom it trades. All OTC counterparties must meet the following criteria as set out in the UCITS Regulations namely:

(i) Be a credit institution in accordance with sub-paragraphs 1.4 (i), (ii) or (iii) of UCITS Notice 9, or an investment firm authorised in accordance with the Markets in Financial Instruments Directive in an EEA Member State, or is an entity subject to regulation as a Consolidated Supervised Entity by the Securities and Exchange Commission, or

(ii) Have a minimum credit rating of A2 or equivalent, or in the opinion of the Investment Manager, an implied credit minimum rating of A2 or equivalent. Exposures to individual counterparties are normally limited to 10% of net asset value in the case of authorised credit institutions and 5% of net asset value in the case of other counterparties.

Transactions involving financial derivative instruments are usually with counterparties with whom the ICAV has signed master netting agreements. Master netting agreements provide for the net settlement of contracts for a particular Fund with the same counterparty in the event of default. The credit risk associated with derivative financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised.

Transactions resulting in large unrealised gains to the Fund may require the Fund to hold collateral received from a broker. In these instances, the credit risk to the Fund is reduced by the value of the collateral held. In the event a broker files for bankruptcy, collateral posted in connection with certain financial derivative instruments is exempt from the automatic stay implemented at the inception of a bankruptcy proceeding. This financial derivative instruments exemption would allow the Fund to immediately foreclose on collateral posted by the insolvent party in order to satisfy claims against such insolvent party.

The ICAV monitors its risk by periodically considering the credit quality and financial positions of the counterparties which the Fund uses. The Fund may only trade with approved counterparties A list of approved counterparties is maintained. Additions to this list are reviewed quarterly and a thorough re-evaluation of all counterparties is conducted annually. The review includes analysis of the counterparty's capital adequacy, profitability, liquidity and other factors as may be appropriate. Any non-cash collateral received by the ICAV cannot be sold or repledged; must be held at the credit risk of the counterparty; and must be issued by an entity independent of the counterparty.

Credit risk is addressed through diversified use of counterparties and issuers, and through minimum security ratings and average portfolio ratings. The Sub-Advisers may set portfolio limits and may invest based on internal parameters with mutually agreed limits set at the Fund's inception, including issue and issuer limitations, credit minimums, and an average credit quality, and the account is monitored on an ongoing basis to ensure it continues to meet these parameters. Rigorous independent analysis of all credit securities before purchase, including financial modeling, scenario analysis, and monitoring changes in risk profile may also be performed. Generally no more than 5% of the portfolio may be invested in any single corporate issuer at the time of purchase.

The Valuation Committee meets at least monthly and whenever the circumstances so require, to review and deliberate on valuation concerns including credit risk. The EnTrustPermal Ltd. provides risk analysis to the Board and the Committee on a semi-annual basis.

Substantially all of the cash and securities held by the Fund are held via the Depositary. Bankruptcy or insolvency by the Depositary may cause the Fund's rights with respect to the cash held by the Depositary to be delayed or limited. The credit rating of the Depositary is highly rated by prominent rating agencies. If the credit quality or financial position of the Depositary deteriorates significantly, the Sub-Advisers may move the cash holdings to another bank.

Cash and cash equivalents held at the Depositary and amounts held by brokers as collateral are disclosed in Note 7.

Notes to Financial Statements – *(continued)*

13. Risk Exposure and Risk Management – (continued)

13.2. Credit Risk – (continued)

If the Fund has posted collateral to a counterparty, in a counterparty insolvency, the Fund may have the right under trading agreements with the counterparty to recall such posted collateral. In practice, however, the Fund may seek to reduce any amounts owed to the counterparty to settle any open transactions by setting off the amounts owed against the posted collateral. If the Fund was due back any collateral after setting off against the amounts owed (e.g., the Fund's position was over collateralised), it is likely the Fund would have an unsecured claim against the counterparty in the insolvency proceeding for the excess amount due to it.

As at 30 June 2016, balances due from brokers and other receivables were exposed to credit risk. The total amount of financial assets exposed to credit risk approximates to their carrying value on the Statement of Financial Position (excluding equities).

No securities have been placed as collateral with brokers as at 30 June 2016, in relation to derivative trading.

In accordance with the ICAV's policy, the relevant Investment Manager monitors each Bond Fund's credit risk exposures on a daily basis and reports regularly to the Board of Directors, which reviews the information provided by the Investment Manager on significant exposures at its periodic meetings.

The credit risk that the ICAV is exposed to arises from the debt securities. The table below sets out a summary of the credit exposure based on credit ratings of the debt securities held in the ICAV as at 30 June 2016:

By rating category	As at 30 June 2016 % of debt securities
A/A	4.42%
BBB/Baa	18.96%
BB/Ba	18.47%
B/B	34.53%
Below B	23.62%
Total	**100.00%**

The S&P credit ratings of brokers/counterparties for the period ended 30 June 2016 are:

Barclays	A-
Credit Suisse	A
JPMorgan Chase	A-
Morgan Stanley	A
Societe Generale	A
State Street Bank	AA-

13.3. Liquidity Risk

The ICAV's Prospectus provides for the daily creation and cancellation of shares and the ICAV is therefore exposed to the liquidity risk of meeting shareholder redemptions at any time.

The Administrator monitors subscription and redemption volumes on a daily basis and notifies the Sub-Adviser of significant movements and unusual trends as appropriate. The ICAV can limit redemptions, if redemption requests on any dealing day (as defined in the Prospectus) exceed 10% of the shares in issue in respect of the Fund. The ICAV may defer the excess redemption requests to subsequent dealing days and shall redeem such shares ratably and the redemption requests shall be treated as if they were received on each subsequent dealing day until all the shares to which the original redemption requests related have been redeemed.

The ICAV has the ability to borrow in the short term to ensure settlement. In accordance with the UCITS Regulations the Fund may borrow money only as follows:

(a) a Fund may acquire foreign currency by means of a "back-to-back" loan; and

(b) a Fund may borrow:

(i) up to 10% of its net asset value provided that such borrowing is on a temporary basis; and

(ii) up to 10% of its net asset value provided that the borrowing is to make possible the acquisition of real property required for the purpose of its business; provided that such borrowing referred to in subparagraph b (i) and b (ii) may not in total exceed 15% of the borrower's assets.

One of the responsibilities of the Valuation Committee is to review and deliberate on valuation concerns, including illiquid securities. The ICAV may from time to time invest in derivative contracts traded OTC, which are not traded in an organised public market and may be illiquid. As a result, the ICAV may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The table below analyses the Fund's derivative financial instruments in a loss position as at 30 June 2016. Maturities are considered to be essential to an understanding of the timing of cash flows based on each Fund's investment strategy.

As at 30 June 2016 Current Liabilities	Less than 1 month US$000	1 -3 months US$000	> 3 months US$000	Total US$000
Payable for investments purchased	(15,254)	–	–	(15,254)
Payable for fund shares redeemed	(119)	–	–	(119)
Payable for distributions	(1)	–	–	(1)
Accruals	(503)	–	–	(503)
Credit default swaps	–	–	(880)	(880)
Equity swaps	–	–	(97)	(97)
Written options	(9)	(2)	(28)	(39)
Forward foreign currency exchange contracts	(6,833)	(37)	–	(6,870)
Open futures contracts	(4)	(28)	–	(32)
	(22,723)	**(67)**	**(1,005)**	**(23,795)**

14. Significant Shareholders

The following table details the number of shareholders with significant holdings of at least 20 per cent. of the ICAV and the percentage of that holding of the ICAV's NAV as at 30 June 2016.

Fund	Number of significant shareholders	Total holding as at 30 June 2016	Aggregate shareholding as a % of the Fund
Permal Alternative Income Strategy Fund	1	2,660,674	93.97

15. Significant Events

The Permal Alternative Income Strategy Fund launched on 25 August 2015.

The Director Robert Shearman resigned from the Board on 23 March 2016.

The Director Jane Trust was appointed to the Board on 23 March 2016.

A New Prospectus was issued on 29 April 2016.

Notes to Financial Statements – *(continued)*

15. Significant Events – (continued)

A New Supplement to the Prospectus was issued on 23 October 2015.

The UCITS V Regulation have been implemented with effective date 18 March 2016.

16. Segregated Liability

The ICAV is an umbrella fund with segregated liability between its sub-funds. As such, as matter of Irish law the assets of each of the Fund will not be exposed to the liabilities of the ICAV's other sub-funds. Notwithstanding the foregoing there can be no assurance that, should an action be brought against the ICAV in the court of another jurisdiction, the segregated nature of the sub-funds would necessarily be upheld. As at 30 June 2016 there was only one sub-fund launched in the ICAV.

17. Subsequent Events

There were no events since the period end, which require adjustment to or disclosure in the financial statements.

18. Approval of the Report

On 14 October 2016, the Annual Report and audited financial statements were presented to and noted by the Board of Directors and were approved for filing with the Central Bank of Ireland and for circulation to the shareholders.

Statement of Major Portfolio Changes*

Permal Alternative Income Strategy

MAJOR PURCHASES	COST (in 000's)
United States Treasury Bill, Zero coupon due 08/18/16	22,992
LinkedIn Corp	6,699
Alere Inc	6,086
Matterhorn Telecom Holding SA 4.875% due 05/01/23	4,741
Mercury Bondco PLC 8.250% due 05/30/21	4,213
L Brands Inc 7.600% due 07/15/37	3,933
Ashland Inc 6.875% due 05/15/43	3,750
Numericable-SFR SA 7.375% due 05/01/26	3,712
PIMCO Dynamic Credit Income Fund	3,659
Pershing Square Holdings Ltd 5.500% due 07/15/22	3,594
Frontier Communications Corp 11.000% due 09/15/25	3,523
United States Treasury Bill, Zero coupon due 12/08/16	3,491
ABN AMRO Bank NV 6.250% due 09/13/22	3,146
First Quantum Minerals Ltd 7.000% due 02/15/21	3,056
Cenovus Energy Inc 4.450% due 09/15/42	3,000
Freeport-McMoRan Inc 3.875% due 03/15/23	2,950
Credit Logement SA 0.888% due 03/29/49	2,907
Altice Finco SA 8.125% due 01/15/24	2,773
Altice Luxembourg SA 7.750% due 05/15/22	2,713
Yahoo! Inc	2,591
Play Topco SA 7.750% due 02/28/20	2,545
Teck Resources Ltd 5.400% due 02/01/43	2,319
EMC Corp	2,253
Altice Financing SA 6.500% due 01/15/22	2,230
Cablevision Systems Corp	2,174
Medivation Inc	2,154
Aston Martin Holdings UK Ltd 10.250% due 07/15/18	2,134
Wind Acquisition Finance SA 7.000% due 04/23/21	1,845
Societe Generale SA 6.000% due 10/27/49	1,833
Banco Bilbao Vizcaya Argentaria SA 8.875% due 12/29/49	1,799
Banco Bilbao Vizcaya Argentaria SA 7.000% due 12/29/49	1,721
Etablissements Maurel et Prom 1.625% due 07/01/19	1,666
Credit Suisse Group AG 7.500% due 12/29/49	1,612

MAJOR SALES	PROCEEDS (in 000's)
Freeport-McMoRan Inc 3.875% due 03/15/23	3,263
United States Treasury Bill, Zero coupon due 05/26/16	1,000
United States Treasury Bill, Zero coupon due 12/08/16	998
Fannie Mae Connecticut Avenue Securities 6.353% due 10/25/28	683
JP Morgan Alternative Loan Trust 3.093% due 07/25/36	489
Alere Inc	471
Fannie Mae Connecticut Avenue Securities (USD '2M-2') 5.453% due 07/25/25	458
Societe Generale SA 6.750% due 04/07/49	445
Baxalta Inc	416
Time Warner Cable Inc	413
Celanese US Holdings LLC 4.625% due 11/15/22	375
Concho Resources Inc 5.500% due 10/01/22	372
L Brands Inc 6.875% due 11/01/35	368
Freddie Mac REMICS 6.058% due 12/15/40	356
iShares US Preferred Stock ETF	344
SM Energy Co 6.125% due 11/15/22	335
Fannie Mae REMICS 6.127% due 10/25/36	319
Shire Plc	317
Ball Corp 4.000% due 11/15/23	287
Fannie Mae REMICS 6.147% due 11/25/36	260
Fannie Mae Connecticut Avenue Securities (USD '1M-2') 5.453% due 07/25/25	247
SIG Combibloc Holdings SCA 7.750% due 02/15/23	243
Silk Bidco AS 7.500% due 02/01/22	236
Picard Bondco SA 7.750% due 02/01/20	231
Europcar Groupe SA 5.750% due 06/15/22	226
Intesa Sanpaolo SpA 7.000% due 12/29/49	219
Casino Guichard Perrachon SA 4.870% due 01/31/49	201
Office Depot Inc	185
Medivation Inc	177
Valeant Pharmaceuticals International Inc	155

* Major portfolio changes are defined as the aggregate purchases of a security exceeding one per cent of the total value of purchases for the period and aggregate sales of a security exceeding one per cent of the total value of sales for the period. At a minimum, the 20 largest purchases and 20 largest sales must be shown.

Supplementary Information

REMUNERATION POLICY

Legg Mason Alternative Funds ICAV (the "ICAV")

1. **Remuneration Policy**

1.1 **Introduction and Purpose**

The ICAV has adopted this remuneration policy in order to meet the requirements of the [European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended] (the "UCITS Regulations") in a way and to the extent that is appropriate to the ICAV's size, internal organisation and the nature, scope and complexity of its activities. This policy has been adopted on an interim basis pending finalisation of ESMA's Guidelines on Sound Remuneration Policies under the UCITS V Directive and AIFMD (the "ESMA Remuneration Guidelines").

The purpose of this policy is to describe the remuneration principles and practices within the ICAV. Such principles and practices are designed:

(a) to be consistent with, and promote, sound and effective risk management;

(b) to be in line with the business strategy, objectives, values and interests of the ICAV;

(c) not to encourage excessive risk-taking as compared to the investment policy of the relevant sub-funds of the ICAV (each, a "Fund");

(d) to provide a framework for remuneration to attract, motivate and retain staff (including directors) to which the policy applies in order to achieve the objectives of the ICAV; and

(e) to ensure that any relevant conflicts of interest can be managed appropriately at all times.

1.2 **Application**

This policy applies to staff whose professional activities have a material impact on the risk profile of the ICAV or of the Funds and so covers: (i) senior management; (ii) risk takers[1]; (iii) control functions[2]; and (iv) any employees receiving total remuneration that takes them into the same remuneration bracket[3] as senior management and risk takers, whose professional activities have a material impact on the risk profile of the ICAV. The ICAV currently does not have any employees – the only personnel are the ICAV's management body (i.e., the board of directors) (each, a "Director" and collectively, the "Board"). All members of the Board are non-executive Directors. Certain of the Directors are affiliated with the investment manager of the Funds (the "Investment Manager"). This policy applies both to the Directors who receive remuneration – namely, those Directors who are not affiliated with the Investment Manager (the "Independent Directors") – and the Directors who do not receive remuneration in light of their affiliation with the Investment Manager.

1.3 **Governance**

UCITS management companies and self-managed investment companies that are significant in terms of their size or of the size of the funds they manage, their internal organisation and the nature, the scope and the complexity of their activities are required to establish a remuneration committee. In view of the non-complex nature of the ICAV's internal structure and its activities, it is not considered necessary for the ICAV to establish a remuneration committee. In particular, the ICAV has taken account of the following circumstances prevailing as of the date of this document:

- the assets under management of the ICAV;
- the number of directors on the Board;
- the ICAV has no employees; and
- the ICAV does not act as an alternative investment fund manager under Directive 2011/61/EU ("AIFMD") or provide the services mentioned under Article 6(3) of the UCITS Directive.

Accordingly, the ICAV is considered to be a non-complex, self-managed investment ICAV. The Board is responsible for the remuneration policy of the ICAV and for determining the remuneration of the directors of the ICAV. The Board is comprised of non-executive directors only. The Board has adopted this policy and periodically reviews (at least annually) the general principles of this policy and is responsible for, and oversees, its implementation in line with the UCITS Regulations. The Board considers that its members have appropriate expertise in risk management and remuneration to perform this review. Where a periodic review reveals that the remuneration system does not operate as intended or prescribed, the Board shall ensure that a timely remedial plan is put in place.

1.4 **Alignment of remuneration and risk-taking**

(a) *Fixed Salary*

The Independent Directors receive a fixed annual fee which is competitive and based on the individual Director's powers, tasks, expertise and responsibilities including, without limitation:

(i) Nature and complexity of the funds;

(ii) demands of fulfilling regulatory obligations; and

(iii) designated person functions.

Each Director's performance is subject to annual review by the Board.

(b) *Variable Salary*

The Directors receive fixed remuneration only. It is not considered appropriate that the Directors receive variable remuneration from the ICAV. The following pay-out process rules in the UCITS Regulations applicable to variable remuneration do not apply to the remuneration paid to staff of the ICAV:

- variable remuneration in instruments;
- retention;
- deferral;
- ex post incorporation of risk for variable remuneration.

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1 The Remuneration Guidelines refer in this context to "[s]taff responsible for heading the investment management, administration, marketing, human resources" and "staff members, whose professional activities – either individually or collectively, as members of a group (e.g. a unit or part of a department) – can exert material influence on the management company's risk profile or on a UCITS it manages, including persons capable of entering into contracts/positions and taking decisions that materially affect the risk positions of the management company or of a UCITS it manages. Such staff can include, for instance, sales persons, individual traders and specific trading desks."

2 "Control functions" refers to staff (other than senior management) responsible for risk management, compliance, internal audit and similar functions within a management company.

3 "Remuneration bracket" refers to the range of the total remuneration of each of the staff members in the senior manager and risk taker categories – from the highest paid to the lowest paid in these categories.

Supplementary Information – *(continued)*

Following an assessment by the ICAV of each of the pay-out process rules in the [UCITS V Directive] and taking account of the ICAV's specific circumstances, the approach set out here is considered to be appropriate to ICAV's size, internal organisation and the nature, scope and complexity of its activities as noted in Section 1.3.

(c) *Expenses*

The Independent Directors will be reimbursed all reasonable, validly incurred, duly authorised and documented business expenses.

(d) *Other Benefits*

The ICAV does not propose to provide benefits to the Directors other than those referred to in this policy.

(e) *Pension*

The Directors are not entitled to pension contributions or other benefits from the ICAV in respect of their role as Directors.

(f) *Notice of termination and severance pay*

The maximum notice period in any Director's letter of engagement shall be determined by the relevant letter of engagement. Subject to the terms of that engagement letter, a Director's fee will continue to be paid during the relevant notice period. No severance payments are made.

(g) *Conflicts of Interest*

To the extent that the ICAV in the future retains any staff engaged in control functions (i.e., staff (other than senior management) responsible for risk management, compliance, internal audit and similar functions), in order to address any conflict of interest such staff shall be compensated in accordance with the achievement of the objectives linked to their control functions, independent of the performance of the business area to which the control functions relate. A Director of the ICAV is also the Compliance Officer of the ICAV. However, in light of the Compliance Officer's affiliation with the Investment Manager, the Compliance Officer does not receive a fee for this role either.

A Director may undertake external activities with or without compensation and/or inducements that might lead to a conflict of interest with the ICAV or the Funds provided the conflict of interest is considered and disclosed in accordance with the terms of the Director's letter of appointment and the UCITS Regulations.

Any staff that may be engaged by the ICAV are required to undertake not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements subject to this policy.

The ICAV has also adopted a connected party transaction policy in accordance with the requirements of the Central Bank.

2. **Deviation from the Policy**

The Board may deviate from this policy. However, in such a case, the relevant payments must comply with the UCITS Regulations and the ESMA Guidelines (to the extent applicable) and in addition, the Board shall approve any payments made and shall document the deviation and the rationale for it.

Total Expense Ratios ("TER") (Unaudited)

The Total Expense Ratio ("TER") was calculated according to currently valid guidelines of the Swiss Funds & Asset Management Association SFAMA.

The key figures as at 30 June 2016 were as follows:

Share Class	TER
Class A US$ Accumulating	3.15%
Class A US$ Distributing Plus (Q)	3.15%
Class A Accumulating Euro (Hedged)	3.15%
Class A Euro Distributing Plus e (M)	3.15%
Class A Euro Distributing Plus (Q) (Hedged)	3.15%
Class E US$ Accumulating	3.40%
Class R US$ Accumulating	1.95%
Class R US$ Distributing Plus(e)(Q)	1.95%
Class R Euro Accumulating (Hedged)	1.95%
Class R Euro Distributing Plus(e)(Q) (Hedged)	1.95%
Class S US$ Accumulating	2.15%
Class S US$ Distributing Plus (Q)	2.15%
Class S Euro Accumulating E (Hedged)	2.15%
Class S Euro Distributing Plus Q (Hedged)	2.15%
Class X Euro Accumulating (Hedged)	2.55%
Premier Class US$ Accumulating	2.40%
Premier Class US$ Distributing Plus (Q)	2.40%
Premier Class Accumulating Euro (Hedged)	2.40%
Premier Class Euro Distributing Plus (Q) (Hedged)	2.40%

1) The Total Expense Ratio ("TER") is calculated according to the following formula: (total expenses / AF)* 100; AF (= average fund assets)

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