

Sub-fund of Irish domiciled open-end investment company

Fund owner: Legg Mason Investments

Fund manager: Legg Mason Global Asset Management

Named portfolio manager(s):

Bill Miller (since launch)

Peer group: US Mainstream Equities

Location: Baltimore

Launch date: March 1998

Fund size (October 2009): US\$401m

Contact group: + 44 20 7070 7444 or

www.leggmason.co.uk

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)



Report date June 2010

### Investment style

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

### Performance statistics

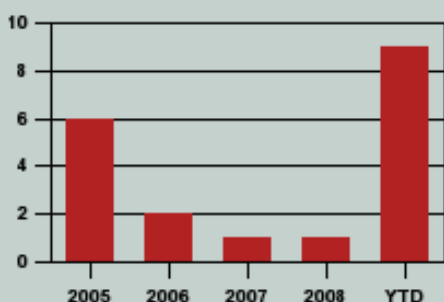
	3 Years
Fund	-41.6%
Standard & Poor's peer median	-17.2%
Index**	-15.5%
Fund rank	1394/1402

Note: returns are cumulative

### Three-year risk characteristics

Maximum drawdown (%)	High	-70.3
Volatility	High	27.8
Correlation	High	1.0
Beta	High	1.4

### Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank nine, with tenth decile as rank one.

Performance Data Source - © 2009 Morningstar Inc. All Rights Reserved. All statistical data on this report has been run to 30/09/2009 on NAV to NAV basis, with gross income reinvested, in US Dollars.

### Standard & Poor's opinion (November 2009)

This fund has been managed by veteran US equities investor Bill Miller since launch in March 1998. Miller has close to 30 years' investment experience, all of which has been with Legg Mason Capital Management (LMCM). He has been involved with the management of this long-term intrinsic value strategy initially as a co-manager since 1982, prior to having sole responsibility from 1990. Mary Chris Gay, responsible for implementing the strategy on UK and European-domiciled funds, has in excess of 20 years' experience and has been at LMCM her entire career.

Supporting Miller and Gay is a well-resourced desk of analysts and market intelligence team. Additionally, the group initiated a series of investment seminars that focused on areas of greatest concern such as financials in order to gain some insight into the dismal market conditions of H2 2008. This, coupled with the widest spread in valuations seen in many years prompted the manager to buy stocks including Goldman Sachs and State Street.

The fund's track record has been the cause of some concern over recent years and while we are heartened to see that it has rallied sharply in 2009 to end-September, comfortably outperforming the index and peers, returns over three and five years remain among the worst in our peer group on a cumulative basis.

Although there is still some way to go before this fund's returns can compete with peers over longer-time periods, the commitment to the process and experience of the management team ensures that the S&P A rating is retained.

### Fund manager & team

Miller is the key decision maker on the fund. He has been sole manager on the value strategy since 1990 and was co-manager from 1982.

He and Mary Chris Gay are supported by a team of 20 analysts led by Randy Befumo. This includes seven research analysts who work directly for fund managers on tasks given to them. They do not make recommendations but concentrate on understanding the fundamentals and producing a balanced bull/bear case to help the portfolio manager make a decision. In addition, there is a market intelligence team of five that was established to distribute timely economic, market and stock reports and significant stock alerts to the group, thus allowing analysts more time to research companies.

Bill Miller - president - economics (Washington and Lee University), CFA, was treasurer of J.E. Baker & Co, joining Legg Mason as research director in 1981. He co-managed the Value Trust from launch in 1982, taking overall control of the fund management area in 1990.

Mary Chris Gay - finance (Towson University), MS finance (Loyola College), joined Legg Mason's research department in 1988 and the funds group in 1989 as a leisure analyst. In addition to her research activities, she co-manages a number of products.

### Management style

The fund is managed with a long-term buy and hold approach to intrinsic value. Stocks are selected bottom-up but portfolio construction aims to diversify earnings drivers. Internal research on valuation led to a new policy of finding stocks with good intrinsic value in lowly valued sectors that could benefit from future momentum areas of the market.

Analysts cover only 10-15 stocks each, studying each business in great depth. Intrinsic value is assessed using a variety of valuation approaches, including dividend discount and discounted cashflow models and ratio analysis.

Purchases typically trade at a 30-50% discount to long-term intrinsic value. The portfolio is diversified across 30-50 stocks and weightings are primarily driven by the discount to intrinsic value. Risk is assessed primarily at the stock level and may lead to significant deviations from the benchmark S&P 500 at both stock and sector level.

Investments will range from traditional value/restructuring ideas to high growth stocks where the market is underestimating their potential.

Turnover is low, with minimal topping and tailing on valuation grounds.

# LEGG MASON GLOBAL FUNDS PLC - LEGG MASON CAPITAL MANAGEMENT VALUE FUND

Sub-fund of Irish domiciled open-end investment company

Fund owner: Legg Mason Investments

Fund manager: Legg Mason Global Asset Management

## Portfolio & performance analysis (October 2009)

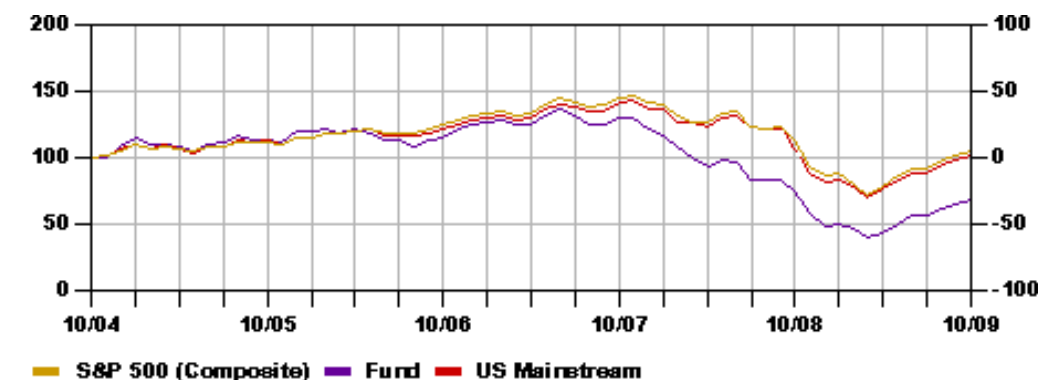
At review the fund was invested across 51 holdings, a marked increase from the 30 positions held 12 months ago. Previously, the number of holdings was reduced as Miller cut a number of names (such as Wachovia and Washington Mutual) increasing cash and concentrating on those companies that he felt would survive the market turmoil. The subsequent additions to the portfolio reflect the increased number of attractive opportunities available and improved outlook for the market.

This is perhaps best seen in the +12% overweight to financials (27.0% against 15.2%) and includes meaningful active weights in State Street and Capital One Financial at index +3.1% and +2.8% respectively. Other favoured areas include IT (+9%) and utilities (+6%). The utilities weighting, virtually borne out of one position, AES, is by far the largest holding at 9.4% (an active weight of 9.3%). The managers believing the characteristics of AES are more correlated to the energy sector than utilities and therefore it represents a good proxy for energy exposure. Consumer staples and energy are the largest underweights at -10% each with the fund avoiding index heavyweight stocks Wal-Mart and Exxon Mobil.

Portfolio characteristics show the fund is trading at a P/E multiple below that of the market (14.9x versus 16.0x) with an estimated one-year earnings growth forecast at a significant premium (12.4% against 5.4%). As at our snapshot, the beta was 1.37.

To end-September 2009, the fund has delivered strong absolute returns allowing it to sit in the top quartile of the S&P peer group, outperforming the median and index by +10.4% and +14.1% respectively. However, the dramatic underperformance during 2006-2008 means that it remains one of the worst performers within the peer group over three and five-years on a cumulative basis. The adherence to the long-term intrinsic value approach meant that the fund did not participate in the energy and materials-driven strong momentum markets during this time.

## Cumulative performance



## Discrete performance (calendar years)

	2005		2006		2007		2008		YTD 30/09/2009	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	4.9	528/1112	5.3	1146/1265	-7.4	1435/1487	-56.8	1661/1697	33.2	225/1882
Index**	4.9		15.8		5.5		-37.0		19.1	
Median	4.7		13.0		6.5		-40.2		22.8	

\*\* S&P 500 (Composite)

Fund benchmark: S&P 500 (Composite)

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
A	5.00	0	1.35	1.71	500		IE0002270589
Registered for sale	Austria, Belgium, Chile, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Luxembourg, Netherlands, Norway, Peru, Poland, Singapore, Spain, Sweden, Switzerland, Taiwan, United Kingdom						

# STANDARD & POOR'S



## Portfolio characteristics

No. of holdings	51
Turnover ratio (%)	N/A
% in top 10	41
Cash	3.6
Consumer discretionary	14.1
Consumer staples	1.5
Energy	1.4
Financials	27.0
Healthcare	10.8
Industrials	2.9
Information technology	27.3
Materials	1.1
Telecoms	0.7
Utilities	9.6

## Top 10 holdings (01/10/09)

The AES Corporation *	9.4
eBay *	4.0
AFLAC	3.8
Aetna *	3.7
Hewlett Packard *	3.5
Cisco Systems	3.4
State Street	3.4
Sears Holdings *	3.3
CA	3.2
UnitedHealth *	3.2

\* In top 10 holdings a year ago

## Risk return (standard deviation) over five years



S&P's fund management research reports are, based mainly on public information, we don't audit the information and we may rely on unaudited information when we prepare the reports which are for institutional use only. A report is not investment advice, a financial promotion, or a recommendation to purchase, hold, sell or trade any security. A report should not be relied on when making an investment decision as the report is for information purposes only and not tailored to a specific investor. Past fund performance is no guarantee of future performance and we accept no responsibility if, in reliance on a report you act or fail to act in a particular way. We are paid for our fund management reports normally by the fund issuer. Our fees are based upon the analysis and time involved in the research process and are not conditional on awarding a fund a rating. Fund companies select the funds they want us to rate and may elect not to have published the rating they are subsequently awarded. Our fund management reports are continuously monitored and updated reports are posted to [www.fundinsights.com](http://www.fundinsights.com). The funds described in this report are generally not available to US investors and are only available to US investors, if at all, who are "accredited investors" as that term is defined in Section 501 of Regulation D of the Securities Act of 1933, as amended or to investors who are deemed to be "qualified purchasers" as that term is used in Rule 2a51-1 under the Investment Company Act of 1940.

S&P and our affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services we rate, include in model portfolios, evaluate or otherwise address. The views expressed in a report reflect our committee's views and the committee's compensation is not related to specific rating or to the views expressed in a report. The trade marks of "Standard & Poor's" and "S&P" are the property of Standard & Poor's Financial Services LLC and are protected by registration in several countries. All rights in those marks are reserved. Copyright © 2010 The McGraw Hill Companies, Ltd 20 Canada Square, Canary Wharf, London, E14 5LH and all of its licensor sources. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or and pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds-info.standardandpoors.com>. This report is issued subject to the laws of England and all matters arising from it or its use shall be subject to the exclusive jurisdiction of the Courts of England. Because of the possibility of human or mechanical error by our sources, S&P or others, we can't guarantee the accuracy of any information and are not responsible for any errors.

Performance Data Source - © 2009 Morningstar Inc. All Rights Reserved. The performance information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

## Symbols and Definitions

### Long-Only Fund Ratings

**AAA** The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

**AA** The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

**A** The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-Hedge-Fund Ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**AA** The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**A** The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Absolute Return Fund Ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**AA** The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

**A** The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Specialist Fund Ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

**AA** The fund demonstrates very high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

**A** The fund demonstrates high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

### All Fund Ratings

**NR** Funds designated as NR (Not Rated) currently do not meet the requisite performance standards and/or the minimum qualitative criteria.

**UR** Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

**New** Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

### Tenure Review

The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.

**Long-term fund management rating** The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more and continues to hold a rating.

### Bond Fund Volatility Ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

**V1** Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of the highest quality fixed-income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

**V2** Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

**V3** Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

**V4** Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

**V5** Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less\* liquid securities.

**V6** Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute Return Fund N Ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.