

Luxembourg domiciled FCP - Part 1

Fund owner: Legg Mason Investments

Fund manager: Esemplia Emerging Markets

Named portfolio manager(s):

Aquico Wen (since January 2001)

Peer group: Global Emerging Markets Equities

Location: London

Launch date: January 1996

Fund size (May 2010): US\$1.1bn

Contact group: +44 207 858 3024 or

www.esemplia.com

Further information on S&P's fund coverage can be found at www.FundsInsights.com



Report date August 2010

Investment style

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

Performance statistics

	Three years
Fund	5.2%
Standard & Poor's peer median	2.2%
Index**	13.6%
Fund rank	279/576

Note: returns are cumulative

Three-year risk characteristics

Maximum drawdown (%)	-28.4
Volatility	10.4
Correlation	1.0
Beta	1.1

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.

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Standard & Poor's opinion (June 2010)

Legg Mason delegates the management of this fund to its subsidiary, Esemplia, a boutique operation that has specialised in running global emerging market equity funds since 1991. Six different emerging market strategies all draw on the same, well-structured investment platform.

Aquico Wen heads an experienced team that includes two strategists, a group of six sector analysts and co-portfolio managers Roger Garrett and Anand Ramachandran.

The highest-rated stocks from a multi-factor ranking, are subjected to fundamental analysis by the sector analysts, who use a dividend discount model to arrive at a fair value. The strategists play an important role by determining the appropriate country risk premium.

When constructing the portfolio, Wen selects the highest-ranking stocks, weighted according to potential upside. If a high-conviction idea is not available in a "critical cell" - for example, Indian technology - a lower-conviction name may be held at a neutral weight. There are 27 of these country/sectors with a benchmark weight greater than 1%. Given the degree of risk awareness, the return target of 3-4% a year over a market cycle, looks ambitious.

The approach has been very consistent under Wen, although greater attention is now being paid to flows into and out of the asset class after liquidity dried up in some of the fund's small-cap names.

Despite some variability in peer relative returns over recent years, and the drag of relatively high fees, the process remains highly structured and diligently applied by an experienced team. The fund retains an S&P A rating.

Fund manager & team

Esemplia is a wholly owned subsidiary of Legg Mason, focused entirely on global emerging market equity investment. The team comprises three specialist emerging market fund managers, all based in London since Ramachandran relocated to the UK in 2009. They are supported by two country strategists, six emerging markets sector analysts - with an average of seven years' investment experience - and one quant analyst. Total assets under management are around \$3.5bn.

Aquico Wen - head of emerging markets equity - economics (Wharton School), began his career with PriceWaterhouseCoopers in tax arbitrage. He joined JPMorgan as an equity analyst and moved to Citigroup in 1998.

Roger Garrett - portfolio manager - BComm management, MA economics & management (University of Canterbury, New Zealand), was fixed income manager at Colonial Mutual, then head of research at Francis Allison Symes, before joining Citigroup in 1991. He is responsible for coverage of Russia and South Africa.

Anand Ramachandran - technology (GB Pant University, Naintal), MBA (Indian Institute of Management), joined Alliance Capital as an analyst in 1994 after initially working as an engineer. He joined what is now Legg Mason International Equities in 1998 as an analyst and became a fund manager in 2007.

Management style

The fund is run by a highly structured process, aiming to beat the MSCI EM USD benchmark by 4% over a market cycle, subject to an 8% maximum tracking error.

Company analysis is based on a dividend discount model, with a discount rate derived from variables including country-level analysis of external debt, political risk, GDP growth and foreign exchange reserves.

The global sector analysts rate stocks one (best) to five (worst) based on valuation, earnings momentum and likelihood of an earnings surprise. Portfolio construction aims to be broadly neutral to the benchmark at sector and country levels. The index is divided into 10 industry groups for each country, giving 190 "cells". The process focuses first on those with an index weight of over 1%. In these "critical cells" analysts' best ideas are overweighted by 2.5% and good ideas by 1%. If there are no one- or two-rated stocks, a portfolio diversifier is bought at a neutral weight. Non-critical cells are zero-weighted if no ideas are found.

The three fund managers each specialise in a geographic area but run the fund in a collegial manner. Risk constraints are +/-5% countries, +/-8% sectors, +/-2% cells and +2% for stocks.

LEGG MASON GLOBAL FUNDS FCP (LUXEMBOURG) - LEGG MASON EMERGING MARKETS EQUITY FUND

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Portfolio & performance analysis (April 2010)

The portfolio showed relatively little deviation from benchmark at the sector level.

The largest country overweights were Mexico and India, while China, Brazil and Russia were all marginally overweight. The team had sold out of Israel ahead of the country leaving the index. South Korea and Taiwan were most underweight.

On a regional basis, the weighting to Latin America had risen to an overweight at the expense of EMEA, but had subsequently been trimmed back. Brazilian and Mexican banks and consumer staples names contributed most to the region's performance in 2009. The energy, materials and financials sectors (notably in Russia) contributed strongly to relative outperformance in EMEA. Asia was more mixed, with Indian IT and telecoms problematic but the fund still finished top decile.

This strong performance means the fund is now back ahead of median, over three and five years.

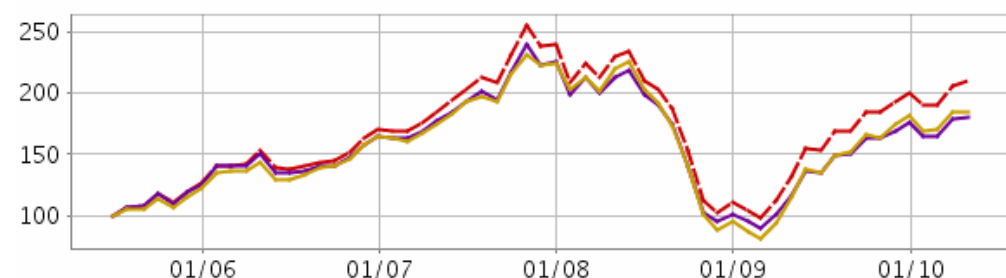
The first few years under the current process (implemented on this fund in 2000), yielded strong peer-relative returns, however, the past five years have been far more mixed.

The fund's process has historically resulted in a significant bias to small- and mid-caps. While this has generally helped returns in rising markets, sharp shifts in liquidity flows in much of 2005, H2 2007 and during the severe market correction in Q4 2008 saw performance hurt by the fund's tilt down the cap scale. Over 12 months, exposure to small-cap stocks had fallen. Less than 1% was invested in stocks capitalised under \$1bn, 33% in \$1-10bn, and 65% in companies over \$10bn.

2008 was a story of two halves, with good stock (eg, ENRC, Reliance Industries, Petro China) and country selections contributing to strong relative returns in H1. Returns fell significantly in H2 however, as a number of stock-specific problems (eg, Mechel, Bumi Resources) combined with a rapid decrease in liquidity among small-caps.

Year to April, relative returns have been below median, with all but the financials sector detracting.

Cumulative performance



— Legg Mason Emerging Markets Equity I Ord USD
— Global Emerging Markets Mainstream — S&P/IFCI Composite TR

Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 30/04/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	34.9	127/445	36.4	325/557	-57.5	518/691	90.3	70/852	1.0	765/913
Index**	35.1		40.3		-53.7		81.0		4.3	
Median	31.6		37.3		-54.9		74.5		3.0	

** S&P/IFCI Composite USD

Fund benchmark: MSCI Emerging Markets USD index

Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
I Ord USD		0%	0.90%	1.11%	one unit	-	LU0105192339
Registered for sale		Chile, France, Germany, Greece, Hong Kong, Jersey, Luxembourg, Netherlands, Poland, Singapore, Switzerland, United Kingdom					

STANDARD & POOR'S



Portfolio characteristics (1 May 2010)

No. of holdings	84
Turnover ratio (%)	N/A
% in top 10	29

Top 10 holdings

	%
Au Optronics	4.5
Samsung Electronics *	4.5
Vale	2.9
China Mobile	2.8
Gazprom *	2.5
America Movil *	2.4
China Construction Bank *	2.4
Itau Unibanco	2.4
Shinhan Financial	2.3
Petrobras Brasileiro	2.0

* In top 10 holdings a year ago

Regional allocation

	%
Asia	54.8
EMEA	16.7
Latin America	26.1
Cash	2.4

Sector allocation

	%
Consumer discretionary	7.2
Consumer staples	6.6
Energy	13.3
Healthcare	2.0
Financials	23.1
Industrials	6.3
Information technology	13.3
Materials	15.6
Telecommunications	9.4
Utilities	3.2

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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-funds 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

Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

Under Review (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 (TR) 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 comprising 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 comprising 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.