

Sub-fund of UK authorised ICVC

Fund owner: Legg Mason Investments

Fund manager/adviser: Batterymarch Financial Management

Named portfolio manager/adviser(s):

Team

Peer group: South East Asian Equities

Location: Boston

Launch date: February 2004

Fund size (November 2010): £14.5m

Contact group: +44 20 7070 7444 or

www.batterymarch.com

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



Report date January 2011

Investment style

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

Performance statistics

Three years

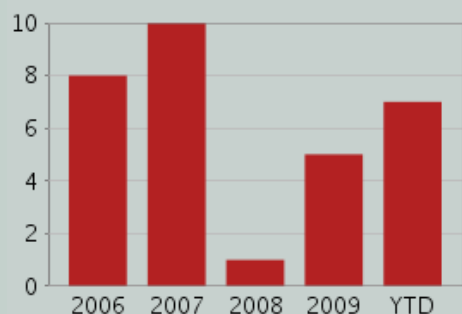
Fund	-28.9%
Standard & Poor's peer median	-16.2%
Index**	-14.1%
Fund rank	889/974

Note: returns are cumulative

Three-year risk characteristics

Maximum monthly drawdown (%)	-24.2
Volatility	32.1
Correlation	1.0
Beta	0.9

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 - © 2010 Lipper Inc. All rights reserved. All statistical data on this report has been run to 29 October 2010 on NAV to NAV basis, with gross income reinvested, in USD.

Standard & Poor's opinion (December 2009)

This fund is managed by the Legg Mason subsidiary, Batterymarch. It is run by the Boston-based emerging markets team of seven manager/analysts, each of whom has specific regional research responsibilities.

Of the seven, four have responsibility for Asian markets. A junior analyst was added to this team in 2009 and is currently providing support for South Asian markets, while an internal appointment is expected to be confirmed shortly. This new addition will focus on greater China and is a mandarin speaker.

Although not large in a peer group context, the team is clearly growing and the process itself reduces the analytical input required to run this product given the quantitative bias. A quantitative model is used to rank all stocks in the universe, with those in the top quintile being potential buy candidates and subject to fundamental work. Despite this fundamental work, 75-80% of the alpha created by the fund is expected to be derived from the quantitative model output.

The team has now developed indicators that will monitor how factor returns and correlations are reacting to market conditions and will highlight areas to re-weight in times of abnormal behaviour. While we have yet to see how this works in a live portfolio, we expect intervention to be very infrequent and acting primarily to retain diversification in return drivers.

After the weakness of 2008, we are encouraged to see improved performance more recently. The fund retains its S&P AA rating.

Fund manager & team

Batterymarch's emerging markets team is based in Boston and consists of five portfolio managers and two quantitative analysts. The team is headed by David Lazenby, who is also responsible for the Korean market. Ray Prasad is the lead portfolio manager, and also focuses on South Asia, with help from Ken D'Souza. Courtney Wei is responsible for China/Hong Kong.

David Lazenby - graduate (Brigham Young University), has been on the emerging markets team since 1987 and became head of the team in 2003.

Ray Prasad - graduate (Delhi University), MS, MBA (Boston), joined Batterymarch in 1997 as an emerging markets analyst, becoming a portfolio manager in 2000. He has had primary responsibility for Asia since 2005, and has 15 years' investment experience.

Management style

The approach blends disciplined quantitative screening with qualitative fundamental analysis.

Only stocks with a daily trading volume over \$1m, and minimum coverage by three analysts, are considered for screening purposes. Stocks are ranked using five, equally weighted criteria: valuation, cashflow, earnings growth, expectations and technicals. New tools will suggest amendments to these weights in abnormal market conditions.

Stocks ranked in the first quintile are potential buys. Fundamental analysis is then undertaken, emphasising management quality, business structure and the competitive environment, and supported by company visits.

The portfolio normally contains 120-160 stocks and positions above 5% of assets usually trigger partial sales. Bottom- and third-quartile stocks are also sold. Annual turnover is generally 80-120%.

Deviations from the MSCI AC Asia ex Japan index are typically +/-7% at country and industry levels, and +/-1.5% for stocks, ensuring exposure to the largest index constituents. The manager ensures that final country exposures reflect the aggregated bottom-up output of the model. Cash is maintained at operating levels.

LEGG MASON FUNDS ICVC - LEGG MASON ASIA PACIFIC FUND

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Portfolio & performance analysis (November 2009)

There has not been wholesale change to this portfolio over the past year, with the largest change at the country level being the reduced weighting to Taiwan, where model rankings have moved lower. Related to this is the reduced sector weighting to IT. The sectors that have seen additions have primarily been consumer-related and here stocks in China and Indonesia have been favoured.

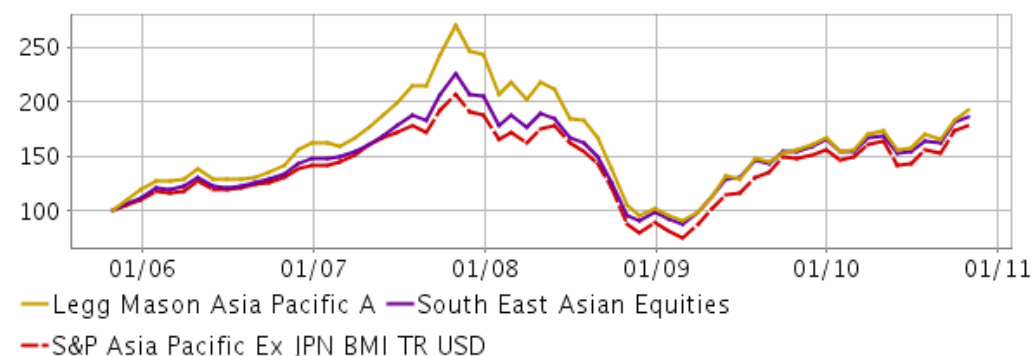
Current portfolio positioning shows a zero-weighting to Malaysia (-4.1%) and an almost 5% underweight to Thailand. Indonesia, the Philippines and Thailand are the main overweights. Sector positioning in this fund is purely a reflection of the stock selection (within the control range) and here we see a slightly larger deviation from benchmark in the +5.7% position to consumer discretionary. Technology and telecoms are the two main underweights.

The fund ranks in the top quartile over five years. It showed strong performance in 2005 through to the end of 2008. In 2005, successful stockpicking in, and an overweight to Korea contributed significantly to top decile returns. However, performance in 2006 was held back by a couple of Korean small-caps that misled the market in January, and an early move into Taiwanese financials. 2007 returns held up during the market correction, with stock selection in South Korea (insurance stocks) strong and an underweight to Taiwan adding value.

Returns were in the bottom quartile in 2008. Country positioning (overweight Korea and India and underweight Taiwan) and fund outflows hurt performance. 2009 performance was again behind peers and the index. Selection in South Korea was particularly weak, while selection in India also detracted.

Performance in 2010 year to date has been strong with stock selection adding considerable value in Indonesia and China.

Cumulative performance



Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 29/10/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	36.1	164/687	49.6	81/881	-58.3	960/1039	64.6	662/1207	15.1	492/1298
Index**	28.7		32.0		-52.7		76.4		13.5	
Median	31.7		36.1		-51.2		65.9		13.5	

** S&P Asia Pacific Ex JPN BMI TR USD

Fund benchmark: MSCI AC Far East ex Japan index

Share class screened: GB0034100486 (A)

STANDARD & POOR'S



Portfolio characteristics (1 November 2010)

No. of holdings	159
Turnover ratio (%)	118
% in top 10	22

Top 10 holdings

	%
Hon Hai Precision	3.0
Samsung Electronic *	3.0
Bank Mandiri	2.0
China Mobile *	2.0
CNOOC	2.0
Intime Department	2.0
Mahindra & Mahindra	2.0
Suntec REIT	2.0
Taiwan Semiconductor *	2.0
Yanzhou Coal Mining	2.0

* In top 10 holdings a year ago

Regional allocation

	%
China	28.3
Hong Kong	8.1
Indonesia	6.5
Korea	17.6
Philippines	3.1
Singapore	5.2
Taiwan	10.3
Thailand	4.8
Others	12.8
Cash	3.3

Sector allocation

	%
Consumer discretionary	15.1
Consumer staples	5.0
Energy	3.3
Financials	33.8
Healthcare	0.4
Industrials	11.3
Materials	9.8
Technology	12.9
Telecoms	3.2
Utilities	1.9
Cash	3.3

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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

Absolute return fund ratings

Specialist 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.

Ucits III flexible beta fund ratings

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

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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 LTFMR 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.