

Sub-fund of UK authorised ICVC

Fund owner: Legg Mason Investments

Fund manager: Batterymarch Financial Management

Named portfolio manager(s):

Team

Peer group: South East Asian Equities

Location: Boston

Launch date: February 2004

Fund size (November 2009): £28m

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](http://www.FundsInsights.com)



Report date June 2010

### Investment style

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

### Performance statistics

3 Years

Fund	1.6%
Standard & Poor's peer median	7.8%
Index**	-3.3%
Fund rank	586/755

Note: returns are cumulative

### Three-year risk characteristics

Maximum drawdown (%)	-24.2
Volatility	9.5
Correlation	1
Beta	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 (December 2009)

The fund is managed by Legg Mason's Boston-based Batterymarch emerging markets team. The investment approach uses the same disciplined quantitative process Batterymarch applies in developed markets, but incorporates a qualitative assessment to pick up more intangible factors.

Ray Prasad is lead manager of this Asia ex Japan fund although it is a team approach. The team is relatively small. However, it covers a large number of companies through disciplined use of a quant model. The model assesses five equally weighted metrics - value, cashflow, earnings growth, expectations, and technicals. This enables the managers to very quickly narrow down the universe to the most attractive stocks. Fundamental analysis is an integral part of the stock selection process to reinforce the final scoring - essentially by differentiating the scores of good stocks and downgrading the weak stocks. This may take place for several reasons, ranging from the geopolitical to management quality. Stock rankings are also aggregated up to provide a country ranking with the most attractive countries then overweighted in the portfolio.

The fund has suffered some underperformance in 2008 and the year to date in 2009 due to its quality bias and fund outflows. However, the team's disciplined and consistent approach with an integrated qualitative assessment has resulted in strong stock selection and above-median performance within the peer group over the past five years cumulatively and since inception. The fund therefore 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 one quantitative analyst. The team is headed by David Lazenby who is also responsible for covering the Korean market. Ray Prasad is the lead portfolio manager while also focusing on South East Asia and China, he joined in 1996 and has 14 years' investment experience. They are supported by Courtney Wei.

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

Ray Prasad - graduate (Delhi University), MBA, MS (Boston), CFA, 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 14 years' investment experience.

### Management style

The approach blends disciplined quantitative screening with qualitative fundamental analysis.

The team assesses around 1,500 South East Asian stocks. Only those stocks with over \$1m daily trading volume and minimum coverage by three analysts are considered for screening purposes. Stocks are ranked using five equally weighted criteria: valuation, cashflows, earnings growth, expectations, and technicals.

Stocks ranked in the first quintile are deemed potential buys. Fundamental analysis, stressing management quality, business structure and the competitive environment, is then undertaken, 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. A proprietary model ranks each market's outlook to ensure country exposure fits with the bottom-up results. Annual turnover is generally 80-120%.

Deviations from the MSCI AC Asia ex Japan index benchmark are typically +/-7% at country and industry level and +/-1.5% for stocks, ensuring exposure to the largest index constituents. Mega-caps are kept within +/-10%. Cash is maintained at operating levels.

# LEGG MASON FUNDS ICVC - LEGG MASON ASIA PACIFIC FUND

Sub-fund of UK authorised ICVC

Fund owner: Legg Mason Investments

Fund manager: Batterymarch Financial Management

## Portfolio & performance analysis (November 2009)

At review, the number of holdings had increased from 110 to 159 as the fund's investable universe expanded to around 1,500. Currently the team is selecting only from the top quintile of the investable universe, and Ray Prasad reports that he would like to see the number of portfolio holdings come back down to the top end of the normal 120-160 range.

India and Pakistan remain around 10.5% of the portfolio, which is low relative to the peer group. China is slightly underweight versus the benchmark AC Asia ex Japan index. Korea stocks continue to rank most attractively in the team's model, although the overweight versus index has been reduced recently and the monies raised have been reinvested in Singapore stocks.

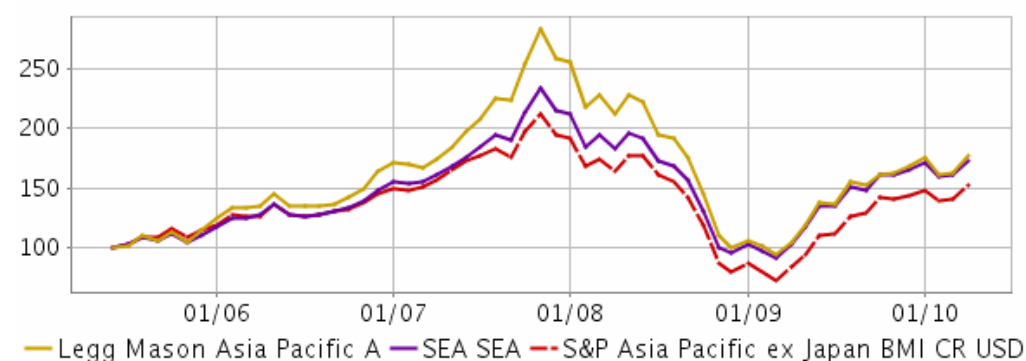
The consumer discretionary sector was the biggest overweight in the portfolio at the beginning of November, driven by value factors in the model. Financials and basic materials were also slightly overweight. The portfolio held no utilities, making the sector the biggest sector underweight followed by telecoms.

Cash had reduced from 6% last year to 2%, in line with the normal close to fully invested approach.

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

Returns were bottom decile in 2008. Country positioning (overweight Korea and India and underweight Taiwan) and coping with fund outflows hurt performance. The fund has recovered during the past six months, but underperformed early in 2009 due to its quality bias.

## Cumulative performance



## Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 31/03/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	36.1	138/584	49.6	76/737	-58.3	781/843	64.6	529/971	1.4	453/1012
Index**	24.7		28.3		-54.4		70.4		2.4	
Median	32.2		37.5		-51.4		65.7		1.1	

\*\* S&P/Citi BMI Pan Asia ex Japan!  
Fund benchmark: MSCI AC Far East ex Japan Index

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
A	4.25		1.50	2.34	3000	-	GB0034100486
Registered for sale		United Kingdom					

# STANDARD & POOR'S



## Portfolio characteristics

No. of holdings	159
Turnover ratio (%)	118.2
% in top 10	22

## Top 10 holdings (01/11/09)

	%
Samsung Electronics *	4.4
China Construction Bank	2.3
China Mobile *	2.1
Bank of China	2.0
Geely Automobile	1.9
Hong Kong Exchange	1.9
China Life Insurance	1.8
Taiwan Semiconductor *	1.8
PetroChina	1.7
Posco	1.7

\* In top 10 holdings a year ago

## Regional allocation

(01/11/09)

	%
Hong Kong	11.1
Indonesia	5.1
Korea	20.5
Philippines	0.7
Singapore	5.6
Australia/NZ	0.0
Cash	2.0
China	26.2
Malaysia	1.6
Others*	10.5
Taiwan	14.1
Thailand	2.6

## Sector allocation

(01/11/09)

	%
Basic materials	8.9
Consumer discretionary	12.5
Consumer staples	2.8
Energy	5.6
Financials	37.0
Industrials	11.0
Technology	17.3
Telecomms	2.9
Cash	2.0

# STANDARD & POOR'S

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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-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.