



December 2011

LEGG MASON FUNDS ICVC - LEGG MASON US SMALLER COMPANIES FUND

Sub-fund of UK-authorized Oeic

Fund owner: Legg Mason Investments

Fund manager/adviser: Royce & Associates

Named portfolio manager/adviser(s):

Lauren Romeo (since March 2007),

Whitney George (since March 2007)

Peer group: US Small and Mid Cap
Equities

Location: New York

Launch date: March 2004

Fund size (October 2011): £136.6m

Contact group: +1 800 221 4268 or
www.roycefunds.com

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

Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

Performance statistics

	Three years
Fund	12.0%
Standard & Poor's peer median	3.8%
Index**	2.3%
Fund rank	76/328

** S&P 600 Small Cap TR
Note: returns are cumulative

Risk characteristics

	Three years
Maximum monthly drawdown (%)	-26.9
Volatility	27.5
Correlation	0.9
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.

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Standard & Poor's opinion (November 2011)

In June 2011, Lauren Romeo moved from being co-manager to lead manager of the portfolio while Whitney George became assistant manager. George is by far the more experienced of the two, but Romeo herself has 18 years' investment, although a limited amount of this is as a lead portfolio manager. At Royce she has been lead manager since 2009 on a mandate that uses a similar stock selection approach but has a different remit to this fund.

The two managers have worked together on this fund since 2007 and both have very similar investment philosophies, focusing on quality - both in terms of balance-sheet strength and management ability. The approach is also valuation aware and longer-term, often with a contrarian stance. As might be expected, moving Romeo to a lead manager role has not resulted in significant changes to portfolio positioning, with only minimal turnover in Q3 2011. Romeo expects to invest in the majority of new ideas highlighted in future by George, but there will of course be some differences of view over certain names and over the timing of purchases and sales.

Romeo has been able to deal on the fund in small position sizes for some years now and since January 2010 has been co-decision-maker on larger positions. Although only recently fully responsible for larger positions, she has clearly had a considerable impact on the fund and can justifiably claim some part of the strong track record.

Given the expectation that Romeo will continue to follow the established approach and her successful past involvement, the S&P AA rating is retained.

Fund manager & team

Royce & Associates was established in 1972 by Charles Royce to manage US mid-, small- and micro-cap value portfolios. Although acquired by Legg Mason in 2001, it has maintained its investment independence, its approach and its experienced team of 17 portfolio managers (average 25 years' investment experience), eight assistant portfolio managers and analysts (average 18 years) and nine dedicated traders. Lauren Romeo became lead portfolio manager in June 2011, with Whitney George moving at this time to an assistant portfolio manager role.

Lauren Romeo - BA (University of Notre Dame), MBA (Wharton School, University of Pennsylvania), CFA, worked as an analyst at T. Rowe Price and Legg Mason funds before moving to Dalton Greiner, Hartman & Maher as a portfolio manager in 2001. She joined Royce & Associates in 2004.

Whitney George - co-CIO - BA (Trinity College), started his investment career in 1981 and worked for various brokerages before joining Royce & Associates in 1991. He is co-CIO with Charles Royce.

Charles Royce - BA, MBA (Columbia University), has been in the industry for over 40 years and managed money for 36 years. He launched Royce & Associates in 1972. Royce was previously an analyst at Blair & Co and director of research at Scheinman, Hochstin & Trotta.

Management style

The fund is benchmarked against the Russell 2000 index and aims to produce strong absolute and relative returns on a risk-adjusted basis.

The approach is long-term, value-oriented and contrarian. Emphasis is placed on quality in terms of balance-sheet strength, low financial leverage and management ability to produce high returns on invested capital. Industry dynamics play a part in forming a three- to five-year view. Companies are bought when short-term valuation levels are attractive, which often means a single-digit prospective P/E ratio. Analyst/managers have contact with five to 10 companies a day. Ideally, companies will be bought at a discount of 30-50% to fair value, giving a wide margin of safety.

Portfolio construction is primarily bottom-up from a universe of companies that are \$500m-\$5bn in size. Weightings are set on conviction and are built gradually. Favoured A category stocks represent about 30% of assets and B ideas are around 40%. The rest is in C stocks, ie, positions currently being researched or where conviction is not yet full.

Risk is controlled through diversification into around 100 holdings. Position sizes may rise to 3%, but are typically below 2%.

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STANDARD & POOR'S



Portfolio & performance analysis (October 2011)

In June 2011, Lauren Romeo moved from being co-manager to lead manager of the portfolio while Whitney George became assistant manager. Both adopt the same investment approach and have worked together on this fund since 2007. As a result, we do not expect any significant shift in the way the portfolio is managed.

Since Romeo took over as lead, there have been the usual changes to individual names, with no significant change in positioning. Of the nine sales during Q3 2011, five were stocks instigated by George. Looking a little further back, the main shifts in the portfolio have been a slight reduction in industrials, which took place in 1H, and additions to IT where certain quality names saw relative weakness. The current overweights to materials and industrials give the fund a cyclical bias relative to benchmark.

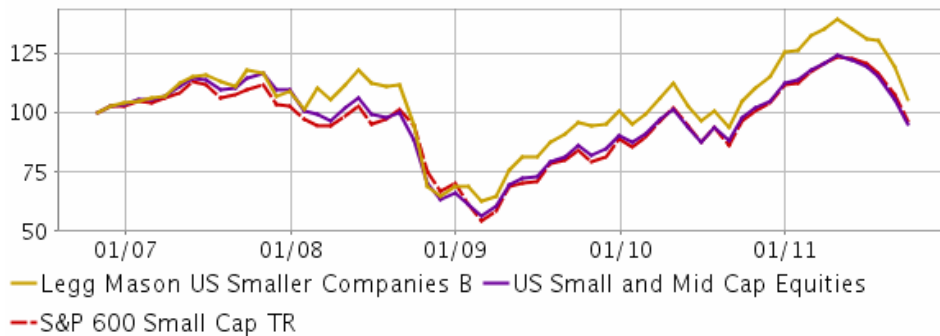
Although we have now seen a change of lead manager on this fund, we would hope to see a continuation of the strong performance track record under the lead of Romeo. She has added smaller positions to the portfolio in the past and been part of team debate, thus contributing to the top-quartile returns seen over the last three years.

Despite retaining a cyclical tilt in H2 2008, the underweight to financials and relatively high cash levels helped secure a second-quartile ranking for the year. Cash was allocated into higher-conviction names at the end of the year, which provided much of the impetus for strong performance in 2009 when the market turned in Q1.

Returns were mixed during 2010 to October. Resource names continued to perform but the underweights to technology and consumer services hurt. This was exacerbated by stock selection in these areas.

Over the past year, returns have been well ahead of our peer-group median and ahead of benchmark. Selection in consumer discretionary and industrials was positive. Strong returns were seen from stocks such as Varian Semiconductor Equipment Associates, Buckle and Allied Nevada Gold.

Cumulative performance



Calendar year performance

	2007		2008		2009		2010		YTD October 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	4.9	169/283	-36.9	101/310	45.9	78/338	25.1	139/355	-16.0	201/402
Index**	-0.3		-31.1		25.6		26.3		-13.8	
Median	7.5		-40.0		36.5		23.1		-16.0	

** S&P 600 Small Cap TR

Fund benchmark: Russell 2000 index

Share class screened: GB0034101013 (B)

Portfolio characteristics (October 2011)

No. of holdings	95
% in top 10	18.1
Turnover ratio (%)	N/A

Top 10 holdings

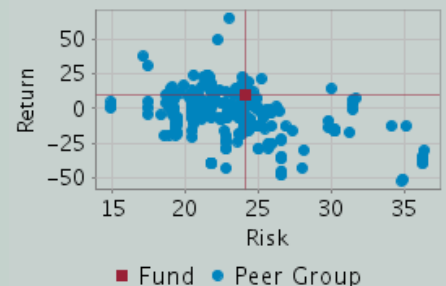
	%
The Warnaco Group	2.1
Robert Half International	2.0
Reliance Steel & Aluminum	2.0
Allied Nevada Gold Corporation	1.9
Pan American Silver Corporation	1.9
Federated Investors (B)	1.7
Ashmore Group	1.7
Thor Industries	1.6
Teledyne Technologies	1.6
Sims Metal Management	1.6

* In top 10 holdings a year ago

Sector allocation

	%
Consumer discretionary	12.5
Consumer staples	4.0
Energy	7.3
Financials	15.4
Healthcare	3.0
Industrials	21.3
Information technology	18.1
Materials	14.8
Cash	3.6

Risk return (standard deviation) over five years



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-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.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

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.