

Sub-fund of Irish-domiciled open-ended investment company

Fund owner: Legg Mason Investments

Fund manager: Legg Mason Capital Management

Named portfolio manager(s):

William Hench (since May 2009)

Peer group: US Small and Mid Cap Equities

Location: New York

Launch date: November 2002

Fund size (October 2009): US\$72m

Contact group: +353 539 149 999 or

www.leggmason.co.uk

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

Standard & Poor's opinion (November 2009)

Management of this Irish-domiciled Legg Mason fund is delegated to Royce & Associates, a New York-based subsidiary with a track record of over 30 years specialising in US small- and micro-cap portfolio management. The fund provides highly diversified exposure to US companies capitalised below \$2.5bn with a long-term, contrarian bias.

The named fund manager has recently changed from Boniface "Buzz" Zaino to former co-manager, William Hench. Hench continues to manage it in the same distinctive style - trawling the whole micro-cap universe (some 7,000-8,000 companies) for potential investments which may even include distressed debt. The hallmark of the house style is a broadly diversified portfolio of between 250 and 300 names. This is seen as necessary to minimise the impact of the inevitable blow ups in this segment of the market. Portfolio construction is bottom-up and risk management, illustrated primarily by the level of diversification, is a priority in this relatively high-risk area.

While the fund continues to rank top quartile over the period since launch, it has fallen into the third quartile over five years. Performance suffered throughout the market downturn (during which time Hench continued to add to his favourite stocks) but has seen a sharp recovery since March when the market bounced back, together with many of the fund's holdings.

Although the change of lead manager from Zaino to Hench results in no significant change in style, Hench has considerably less experience and as a result the fund has achieved an S&P A rating.

Fund manager & team

Royce & Associates was established in 1972 by Charles Royce to specialise in US small- and micro-cap portfolios. The firm manages over \$17bn including \$1.8bn in specific micro-cap mandates, all to this style. Acquired by Legg Mason in October 2001, the firm has maintained its investment independence, its approach and its experienced team of nine portfolio managers, nine analysts and six traders.

William Hench - senior analyst and assistant portfolio manager - BBA (Adelphi University), has 16 years' investment experience and joined Royce in 2002.

Boniface Zaino - MBA (Columbia University), CFA, worked from 1968 until 1984 for Lehman Brothers. In 1984, he moved to TCW. He joined Royce & Associates in 1998.

Darshana Magan - finance (University of South Alabama), began her investment career in 2005 and joined Royce in July 2007.

Management style

This is an unconstrained portfolio of US micro-caps capitalised at under \$500m and small-caps valued at up to \$2.5bn. The benchmark is the Russell 2000 index.

Screens highlight stocks with low P/E ratios and a contrarian bias is apparent. Ideas are generated primarily from reading huge amounts of varied information.

Stocks are grouped into four themes: turnarounds (25-35% of portfolio); undervalued growth, including companies with at least 12% growth rate (25-35%); interrupted earnings stocks with the potential for 20% growth not yet reflected in the prevailing P/E ratio (15-35%); and unrecognised asset value (15-25%).

Fundamental analysis assesses intrinsic value and purchases are triggered by a 50% discount between this valuation and market value. When a good company is found, the manager looks for others in the same industry.

The portfolio is diversified over 250-300 stocks to reduce the impact of potential blow ups.

Positions start at 0.3-0.5% and are built gradually, reflecting the fund's long-term horizon. Sales occur when the stock price matches the team's valuation. Positions are trimmed at 1%.

The fund is usually fully invested, but cash may rise to 10%.

Investment style

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

Performance statistics

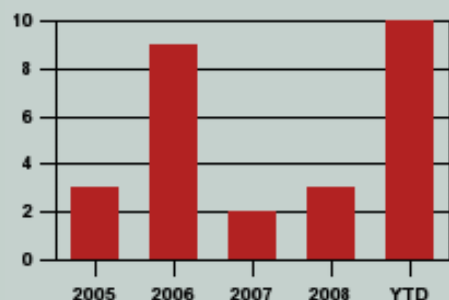
	3 Years
Fund	-17.1%
Standard & Poor's peer median	-12.0%
Index**	-11.4%
Fund rank	181/251

Note: returns are cumulative

Three-year risk characteristics

Maximum drawdown (%)	High	-65.4
Volatility	High	32.5
Correlation	High	1.0
Beta	High	1.3

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.

LEGG MASON GLOBAL FUNDS PLC - LEGG MASON ROYCE US SMALL CAP OPPORTUNITY FUND

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Portfolio & performance analysis (October 2009)

Over the past 12 months, the fund has seen a severe fall (primarily as a result of market movements) and an equally dramatic rise in assets (due to both a strong market recovery and sizeable inflows). As a result the fund's size now stands at \$72m from around \$76m last year (having been around \$39m in May 2009). The number of holdings had risen slightly from 271 to 282 as the manager had taken advantage of value opportunities in the market to add new names. Cash, which had built up to 8% in anticipation of redemptions (which never came) last year, was also slightly lower at 6%.

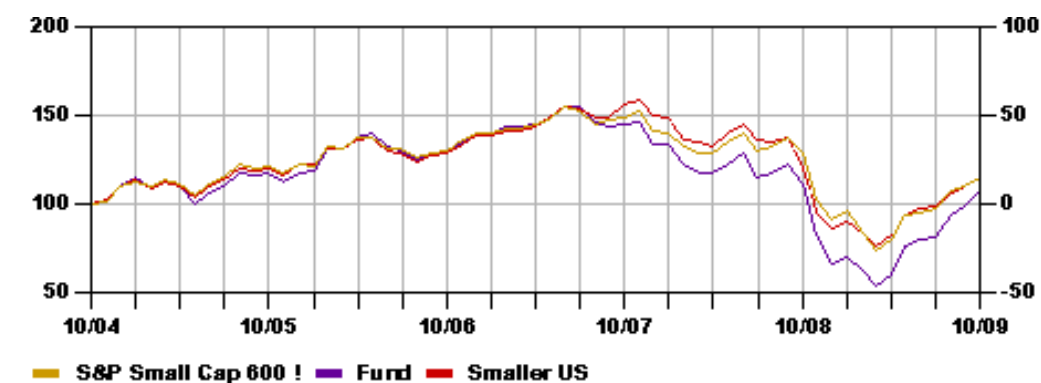
The average market cap of the portfolio had increased slightly from a year ago, primarily as a result of the strong market recovery. Companies capitalised below \$500m accounted for 49% of the portfolio, while 47% was invested in those between \$500m and \$2.5bn and 5% in those above \$2.5bn.

Compared with last year, there was virtually no change to the theme weightings, which were around a third undervalued growth, a third turnarounds, and the balance equally split between interrupted earnings and unrecognised asset values.

Hench added to some IT names in February/March 2009, but has more recently been looking to pull this exposure back and use the cash to add to industrial stocks (backing a return to the global infrastructure theme in the future).

Given the fund's small-/micro-cap nature, it has experienced some extremely volatile returns over the past 12 months. It had a very difficult time from October 2008 to March 2009 as this segment of the market was one of the most badly hit in the sell-off, largely owing to hedge fund participation. The fund fell by around 50% and this severely hurt cumulative returns (its five year ranking was within the bottom quartile as at March 2009), however thanks to an incredibly strong subsequent recovery, the fund's five year ranking has climbed to the third quartile.

Cumulative performance



Discrete performance (calendar years)

	2005		2006		2007		2008		YTD 30/09/2009	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	3.5	161/203	17.9	42/227	-4.6	235/261	-47.7	224/280	54.3	5/307
Index**	7.7		15.1		-0.3		-31.1		19.5	
Median	7.4		12.2		9.1		-40.5		27.9	

** S&P 600 Small Cap TR
Fund benchmark: Russell 2000

Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
A	5.00	0	1.50	3.16	10,000		IE0031619046
Registered for sale							Austria, Belgium, Finland, France, Germany, Hong Kong, Ireland, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom

STANDARD & POOR'S



Portfolio characteristics

No. of holdings	282
Turnover ratio (%)	N/A
% in top 10	7

Asset allocation (01/10/09)

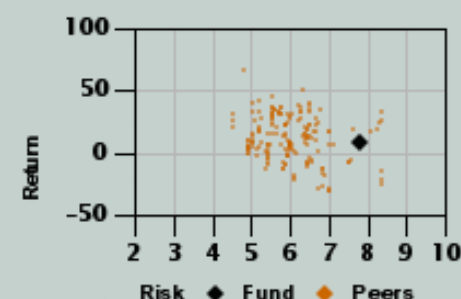
	%
Bonds & Preferreds	0.3
Consumer products	4.4
Consumer Services	12.9
Financial intermediaries	5.7
Financial services	0.5
Health	4.9
Industrial products	21.3
Industrial services	6.9
Natural resources	5.4
Technology	31.2
Treasuries, Cash and Cash Equivalents	6.5

Top 10 holdings (01/10/09)

	%
Ferro	0.8
Veeco Instruments	0.8
Bottomline Technologies *	0.7
Dillard's Cl. A	0.7
Louisiana-Pacific	0.7
Nanometrics	0.7
Rockwood	0.7
Solutia	0.7
Spartech	0.7
Standard Microsystems	0.7

* In top 10 holdings a year ago

Risk return (standard deviation) over five years



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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.