



December 2011

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

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

Fund owner: Legg Mason Investments

Fund manager/adviser: Royce & Associates

Named portfolio manager/adviser(s):

William Hench (since June 2009)

Peer group: US Small and Mid Cap Equities

Location: New York

Launch date: November 2002

Fund size (October 2011): US\$231m

Contact group: +353 539 149 999 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

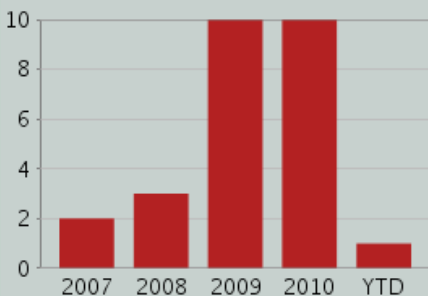
	Three years
Fund	0.0%
Standard & Poor's peer median	3.8%
Index**	2.3%
Fund rank	229/328

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

Risk characteristics

	Three years
Maximum monthly drawdown (%)	-25.7
Volatility	36.9
Correlation	1.0
Beta	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 - © 2011 Lipper inc. All rights reserved. All statistical data on this report has been run to 1 October 2011 on NAV to NAV basis, with gross income reinvested, in USD.

Standard & Poor's opinion (November 2011)

Bill Hench became lead manager on this fund in June 2009, but has been involved in its management alongside previous manager Boniface Zaino (now the back-up manager) for several years prior to taking control. Accordingly, there has been a high level of continuity and consistency in the fund's management style since its launch.

The fund invests in small-caps but has a particular focus on micro-caps (nearly 50% of the portfolio is in companies capitalised below \$500m), making it markedly different from the majority of funds in this peer group and its reference benchmark, the Russell 2000. As a result, relative performance can be highly volatile over the short term (as seen in 2008 and Q3 2011 when liquidity dried up), but over the long term the strategy has shown good levels of outperformance. Relative to the Russell Microcap index (a somewhat closer fit in terms of market cap), the fund is ahead over three and five years.

Hench and Zaino are both highly experienced micro-cap investors, with an extensive knowledge of the asset class and a strong network of resources surrounding them in the form of an analyst and two traders dedicated to the strategy. They have proved astute stockpickers over the years and follow a sensibly diversified (250-300 stocks) approach to portfolio construction that aims to minimise the impact of any stock bankruptcies (a rare but potential eventuality).

Our regard for the managers, together with the well-structured approach and the strategy's long-term track record, underpins an S&P AA 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 \$20bn, including \$2.2bn in specific micro-cap mandates, all to this style. Acquired by Legg Mason in October 2001, the firm has maintained its investment independence and approach. The experienced team consists of 17 portfolio managers, eight analysts/assistant portfolio managers and nine traders. Those most associated with the management of this strategy are:

William Hench - BBA (Adelphi University), CPA, began his career with Coopers & Lybrand before spending 10 years focusing on institutional equities. He joined Royce & Associates 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.

Management style

This is an unconstrained portfolio of US micro-caps capitalised at under \$500m and small-caps valued up to \$2.5bn. It is benchmarked against 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%.

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

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

Fund owner: Legg Mason Investments

Fund manager/adviser: Royce & Associates

STANDARD & POOR'S

STANDARD & POOR'S



Portfolio & performance analysis (October 2011)

As volatility increased in 2011 and markets corrected in August/September, liquidity among micro-caps dried up significantly. In response to this, William Hench had started to sell out of some of the higher-quality names in the portfolio to take advantage of the more depressed share prices of select lower-quality names, which he deemed to have a greater upside potential. For example, the sale of names such as Carpenter Technology funded purchases in names within commercial automobile manufacturers (eg, Dana) and retail dealerships Penski and Lithia.

Other areas that he had added to over the year included housing-related names, aerospace components (deemed to have high barriers to entry) and select consumer names. Within the latter, Hench was favouring teen-related clothing retailers and discount stores.

The split across the four themes was: 23% unrecognised asset value, 34% turnarounds, 27% undervalued growth and 16% interrupted earnings.

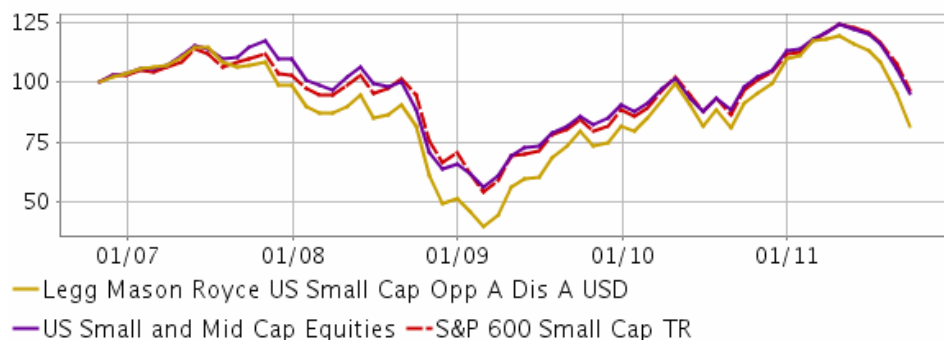
Although Hench has only been named manager on this product since June 2009, his involvement dates back further, as he was back-up to the previous manager, Boniface Zaino. Since assuming control, Hench has delivered top-quartile returns within our peer group and has outperformed the Russell 2000 benchmark, although we note that the considerable bias to micro-caps relative to peers can result in highly volatile relative returns over the short term.

Relative to the Russell Microcap index (which is closer on a market-cap basis), the fund is ahead over both three and five years.

After significant underperformance in 2008, when drying liquidity combined with sizeable redemptions caused severe underperformance, the fund recovered strongly in 2009 and continued to do so in 2010. Alpha derived from stock selection across the board, with the smallest-cap stocks generating the highest absolute returns.

The fund suffered from the global de-risking trend in 2011 to date, as liquidity among micro-caps was the first to dry up.

Cumulative performance



Calendar year performance

	2007		2008		2009		2010		YTD October 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	-4.6	242/283	-47.7	242/310	59.1	20/338	34.0	20/355	-25.4	388/402
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: IE0031619046 (A)

Portfolio characteristics (October 2011)

No. of holdings	266
% in top 10	7.3
Turnover ratio (%)	N/A

Top 10 holdings

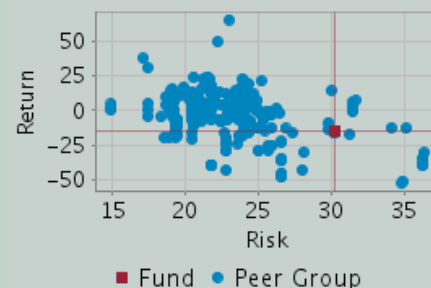
	%
LaSalle Hotel Properties	0.9
Kaiser Aluminum Corporation	0.8
OM Group	0.8
Mack-Cali Realty Corporation (REIT)	0.8
Harman International Industries	0.8
Delta Apparel	0.8
Integrated Silicon Solution	0.8
Northwest Pipe Company	0.8
Kaman Corporation (A)	0.8
The Jones Group	0.8

* In top 10 holdings a year ago

Sector allocation

	%
Consumer discretionary	20.8
Consumer staples	3.1
Energy	4.7
Financials	12.4
Healthcare	4.5
Industrials	19.8
Information technology	18.1
Materials	11.8
Cash	3.8
Other	1.0

Risk return (standard deviation) over five years



STANDARD & POOR'S

S&P's fund management research reports are, based mainly on public information, we don't audit the information and we may rely on unaudited information when we prepare the reports which are for institutional use only. A report is not investment advice, a financial promotion, or a recommendation to purchase, hold, sell or trade any security. A report should not be relied on when making an investment decision as the report is for information purposes only and not tailored to a specific investor. Past fund performance is no guarantee of future performance and we accept no responsibility if, in reliance on a report you act or fail to act in a particular way. We are paid for our fund management reports normally by the fund issuer. Our fees are based upon the analysis and time involved in the research process and are not conditional on awarding a fund a rating. Fund companies select the funds they want us to rate and may elect not to have published the rating they are subsequently awarded. Our fund management reports are continuously monitored and updated reports are posted to www.fundsinsights.com. The funds described in this report are generally not available to US investors and are only available to US investors, if at all, who are "accredited investors" as that term is defined in Section 501 of Regulation D of the Securities Act of 1933, as amended or to investors who are deemed to be "qualified purchasers" as that term is used in Rule 2a51-1 under the Investment Company Act of 1940.

S&P and our affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services we rate, include in model portfolios, evaluate or otherwise address. The views expressed in a report reflect our committee's views and the committee's compensation is not related to specific rating or to the views expressed in a report. The trade marks of "Standard & Poor's" and "S&P" are the property of Standard & Poor's Financial Services LLC and are protected by registration in several countries. All rights in those marks are reserved. Copyright © 2011 Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or and pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds-info.standardandpoors.com>. This report is issued subject to the laws of England and all matters arising from it or its use shall be subject to the exclusive jurisdiction of the Courts of England. Because of the possibility of human or mechanical error by our sources, S&P or others, we can't guarantee the accuracy of any information and are not responsible for any errors.

Performance Data Source - © 2011 Lipper inc. All Rights Reserved. The performance information contained herein: (1) is proprietary to Lipper and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Lipper nor its content providers are responsible for any damages or losses arising from any use of this information.

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.