



November 2011

LEGG MASON GLOBAL FUNDS PLC - LEGG MASON WESTERN ASSET US HIGH YIELD FUND

Sub-fund of Irish domiciled open-ended investment company

Fund owner: Legg Mason Investments

Fund manager/adviser: Western Asset Management

Named portfolio manager/adviser(s):

Michael Buchanan (since April 2005)

Peer group: US high yield

Location: Pasadena

Launch date: February 2004

Fund size (August 2011): US\$470.6m

Contact group: +44 20 7070 7444 or

www.westernasset.com

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

Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Performance statistics

	Three years
Fund	31.4%
Standard & Poor's peer median	31.7%
Index**	46.1%
Fund rank	96/178
Volatility-adjusted ranking	111/178

** ML High Yield Master II USD!

Note: returns are cumulative

Risk characteristics

	Three years
Maximum monthly drawdown (%)	-16.9
Volatility	17.0
Correlation	1.0
Beta	1.0

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 (October 2011)

Legg Mason's subsidiary Western Asset Management manages this US high yield fund. Its deep-value approach suffered badly in 2008, and is still affecting the fund's three-year cumulative track record. However, the fund is on an improving trend following outperformance within the S&P US high yield peer group in 2009 and 2010, as expected. Encouragingly, it has continued to outperform during the current year. Over the seven months to end-July 2011 the fund was in the top quartile, and at the time of reviewing the fund in September 2011, it seemed to be holding up well during the period of market stress.

One reason for better performance during the current market setback is that the credit team has applied its value-driven investment approach with better risk management. From our discussion with fund manager and team head, Michael Buchanan, it is clear that, while the team is still looking to buy value, it has stopped averaging down. Another reason for the better relative performance this time around has been the more stable fund size. It has had significant inflows during the past 12 months, and had fewer redemptions in August and September 2011 than in the third quarter of 2008.

The fund remains below median over three years cumulatively, but has moved up from bottom (when we reviewed it last year) to second quartile. It will soon benefit from the disastrous third quarter of 2008 dropping out.

Given the credit team's successful tightening of its risk management, while remaining consistent in its investment philosophy, we have retained the fund's S&P A/V6 rating.

Fund manager & team

Michael Buchanan heads Western Asset Management's credit team, which manages \$14.8bn in high yield investments.

Michael Buchanan - graduate (Brown University), CFA, started with Conseco Asset Management in 1990. He was a high yield manager with BlackRock from 1998 to 2003. He joined Western Asset Management in 2005 from Credit Suisse.

Ian Edmonds - BSc mathematics (University College, London), started his career with Bacon & Woodrow. In 1994 he joined Lehman Brothers Global Asset Management, later acquired by Western Asset Management. He covers European high yield markets.

Management style

The fund aims to outperform the BarCap US Corporate High Yield 2% Constrained index using an investment style driven by fundamental analysis of relative value.

The manager applies a team-based approach, taking bets relative to the benchmark based on the credit analysts' research convictions.

The investment process begins with broad top-down themes and sector views, but the main emphasis is on relative value-driven security selection. The team favours companies that show stable free cashflow over a market cycle and have good covenants.

The global credit team meets weekly to discuss stock selection ideas, typically focusing on a different sector at each session.

The portfolio is normally broadly diversified, with about 130-180 issuers held. The fund guidelines allow it to have up to 20% in non-US names, but the manager mainly sticks to US-based investments. Portfolio duration is usually kept within 10% of the benchmark position.

Risk control focuses on bets taken relative to the index. Off-benchmark bets, such as EMD investments, will not normally exceed 15% in aggregate. Tools used by the manager include Credit Delta, Barclays Point and an in-house attribution model.

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STANDARD & POOR'S



Portfolio & performance analysis (August 2011)

Performance ranks second quartile over three years cumulatively despite strong relative returns over the past two-and-a-half years. This is attributable to the third quarter of 2008 when the fund suffered a disaster because of the house view to re-risk early into the credit crisis. Since then, the fund has been above median in each of 2009, 2010 and is top quartile in the current year to end-July 2011.

At the time of reviewing the fund in September 2011, Western Asset Management's credit team was generally positive on the outlook for high yield, and was looking for opportunities to add to credit risk. However, in contrast with 2008, the manager has not been averaging down with each general widening of credit spreads.

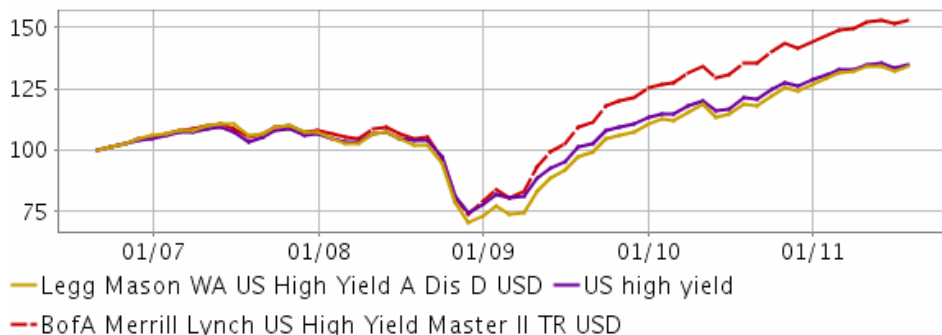
The main reasons that the credit team is positive on the outlook for US high yield credit are: valuation, the relatively low leverage in corporate balance sheets, strong cash positions, low default rates and improving recovery rates for companies that do default.

Key positions in the portfolio at review were a slight overweight to CCC and below-rated securities, underweight BBs based on valuation and relative vulnerability to future interest rate rises, and increased exposure to senior-secured high yield bonds.

By sector, the portfolio was overweight transportation, wireless and banking. It was underweight technology and finance companies.

The manager has been running higher cash balances in the portfolio recently, which have helped to absorb the modest redemptions faced during August and September. After significant inflows at the beginning of the year, fund size was \$471m at 1 August 2011, up from \$115m on 1 August 2010.

Cumulative performance



Calendar year performance

	2007		2008		2009		2010		YTD August 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	1.3	73/148	-31.7	121/161	51.4	64/180	14.3	79/198	5.7	53/224
Index**	2.2		-26.4		57.5		15.2		6.2	
Median	1.3		-26.6		46.4		13.6		5.0	

** ML High Yield Master II USD!

Fund benchmark: BarCap US Corporate High Yield 2% Constrained index

Share class screened: IE0034203152 (A)

Sources of return

	None	Low	Average	High
Portfolio duration				
Credit spreads				
Country / sectors				
Yield curve positioning				
Derivatives				

Portfolio characteristics (August 2011)

Effective duration (years) 4.2

Asset allocation (%)

	Long	Short	Net
Bank/leveraged loans	0.00	0.00	0.00
Convertibles	0.10	0.00	0.10
Corporate bonds	4.50	0.00	4.50
Governments/supranational	0.00	0.00	0.00
Other	0.00	0.00	0.00

Credit rating breakdown

	Long	Short	Net
AAA	0.00	0.00	0.00
AA	0.00	0.00	0.00
A	0.00	0.00	0.00
BBB	0.00	0.00	0.00
BB	0.80	0.00	0.80
B	2.20	0.00	2.20
CCC & below	0.90	0.00	0.90
Unrated securities	0.00	0.00	0.00

Duration

	Long	Short	Net
0-1 years	0.00	0.00	0.00
1-3 years	0.20	0.00	0.20
3-5 years	0.80	0.00	0.80
5-7 years	1.50	0.00	1.50
7+ years	2.10	0.00	2.10

* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration 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.