



September 2011

## LEGG MASON FUNDS ICVC - LEGG MASON GLOBAL EQUITY INCOME FUND

UK-domiciled ICVC

Fund owner: Legg Mason Investments

Fund manager/adviser: Global Currents Investment Management

Named portfolio manager/adviser(s):

Paul Ehrlichman (since launch) / Team

Peer group: Global mainstream equities

Location: Wilmington, Delaware

Launch date: May 2008

Fund size (June 2011): £20.8m

Contact group: +44 20 7070 7444 or

www.leggmason.co.uk

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)

### Investment style

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

### Performance statistics

	Three years
Fund	-4.4%
Standard & Poor's peer median	-8.6%
Index**	-3.1%
Fund rank	1565/4768
Volatility-adjusted ranking	1678/4768

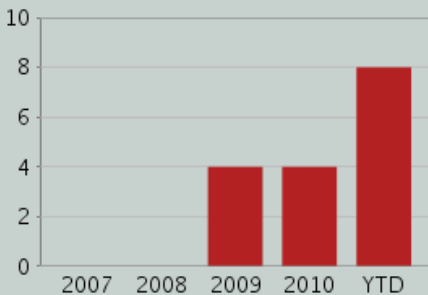
\*\* S&P Global 1200

Note: returns are cumulative

### Risk characteristics

	Three years
Maximum monthly drawdown (%)	-18.1
Volatility	21.4
Correlation	1.0
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 (August 2011)

The disciplined investment approach supporting this fund has undergone remarkably little change since it was introduced at Brandywine Investments in the mid-1980s. Lead manager, Philip Ehrlichman first became involved in the mandate soon after that. He stayed with it when the firm was merged into the Legg Mason group and then when he helped spin off Global Currents, in 2008, as an associated Legg Mason subsidiary focusing on US and global equity mandates emphasising bottom-up stock selection and a clear value bias.

Global Currents has a small but highly experienced investment team. Lead manager and CIO Paul Ehrlichman is supported by three other fund managers (average 21 years' experience) and three analysts (average 10 years). All have global sector responsibilities.

The Global Equity Income Fund aims to deliver a quarterly income with some capital appreciation. The portfolio is constructed mainly bottom-up and kept relatively focused with a strong value tilt.

Portfolio construction starts by screening over 17,000 stocks on a range of criteria relative to peers and historic levels over rolling 60-month periods. Those identified as selling below their normal valuation levels undergo further modelling to help avoid value traps. Risk is controlled through various formal positioning constraints and the team's understanding of the companies held.

The fund's disciplined dividend strategy, supported by an experienced team, comfortably supports the S&P A rating.

### Fund manager & team

Global Currents Investment Management was established in May 2008 by the global equity value team at another Legg Mason subsidiary, Brandywine. It is an autonomous affiliate within Legg Mason and its expertise is in global equity mandates run with a clear value bias and an emphasis on bottom-up stock selection. With over \$4.5bn under management, the investment team comprises four portfolio managers including CIO Paul Ehrlichman (average experience 24 years) and three research analysts (average 10 years). All have global sector responsibilities.

Paul Ehrlichman - global equity CIO - finance & analysis (La Salle University), began his career in 1983 at First Pennsylvania Bank, moving to Provident Capital Management in 1984 and Brandywine in 1988 becoming global equity CIO before launching Global Currents in 1988.

Sean Bogda - finance (University of Colorado), began his career in 1990 as an analyst at Brandywine and is now a senior portfolio manager in the global equities team.

Elisa Mazen - finance (Rutgers University), has over 25 years' investment experience. She joined the firm in 2008 from Oppenheimer Capital, where she was head of global equities and before that was a fund manager at Clemente Capital.

Safa Muhtaseb - business (Old Dominion University), MBA finance (University of Tennessee), has over 21 years' experience with names including Brandywine, Goldman Sachs and CalPERS.

### Management style

This all-cap, all markets fund aims to outperform the MSCI World index by an average of 3% a year over a full market cycle and provide a yield of between 3% and 4%.

A universe of over 17,000 stocks is screened for dividend yield above 1.5% and minimum \$500m market cap. A quantitative model, run monthly, compares and scores each stock's P/E, P/B and P/CF ratios relative to sector, country and historic levels over rolling 60-month periods.

Companies with deteriorating fundamentals are eliminated. In-depth fundamental analysis then focuses on stocks ranked in the top half of the screen. Company visits and meetings with suppliers and competitors help develop an understanding of the business.

The portfolio is focused into 50-90 holdings and built in a collegial fashion. Core positions are typically 1-3% (up to 5%), based on upside potential, downside risk, level of conviction and the impact on diversification.

Formal risk control limits include 15% for any one industry, 35% in a sector and 50% in a single country, but raised to 75% for the US and reduced to 15% for an emerging market. The targeted tracking error is 4% to 8%. Turnover has averaged around 80-90% since launch.

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# STANDARD & POOR'S

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FUND MANAGEMENT RATING

## Portfolio & performance analysis (June 2011)

Since launch in May 2008 this fund has performed broadly as expected from a global equity income, underperforming the S&P sector median for mainstream global equity funds in 2009 and 2010 when growth stocks outperformed strongly. It then rebounded in 2011 as investors became increasingly more defensive and sought the relative safety of companies with earnings resilience and/or quality companies that had become oversold and available at significant discount to their perceived fair value.

Given the equity income mandate, the fund performed reasonably well in 2009 and 2010, lagging the sector median by only 250bps and 140bps respectively.

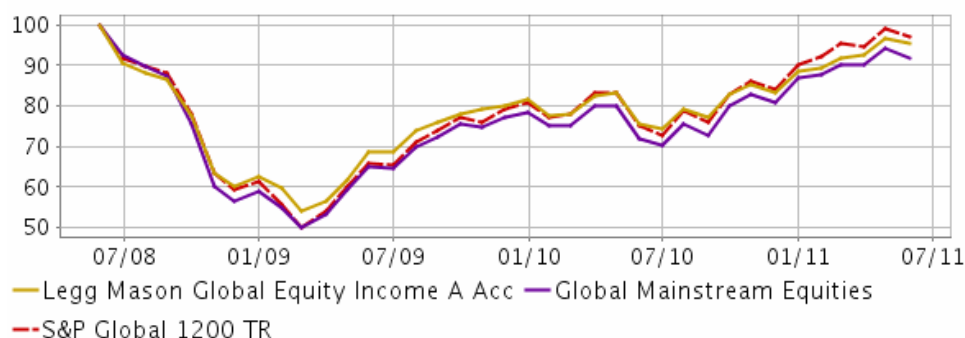
Although the fund enjoyed a strong first quarter in 2009 it was then hurt by its quality bias and underweight position in low price-to-book companies, most notably the banks. Stock selection within consumer discretionary also detracted, partly because of the fund's bias towards the UK at the expense of the US.

A good start in 2010, helped by exposure to mortgage Reits, was followed by a disappointing second half due in part to the team's underweight in technology where the team found difficulty in building a significant weighting because of the low dividend payouts.

Over the last 12 months, the fund's geographic asset allocation has moved from being 61% exposed to the US to a current 38% weighting, against 54% in the benchmark MSCI World index. This has allowed significant overweights in the UK (21% against an index 10%), Asia (9% against 6%) and a 3% off-benchmark position in emerging markets, with broadly index-neutral weights elsewhere. The key sector overweights were to telecoms and healthcare, financed by significant underweights to industrials and technology.

At stock level, each of the top 10 holdings was significantly above index weight, reflected in a top-10 concentration of 24% by way of stocks representing just 3.9% of the index.

## Cumulative performance



## Calendar year performance

	2007		2008		2009		2010		YTD June 2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	-		-		30.2	3327/5429	8.6	3690/5982	7.8	1523/6275
Index**	10.2		-40.1		31.7		11.9		7.3	
Median	10.9		-43.7		32.7		10.0		5.9	

\*\* S&P Global 1200

Fund benchmark: MSCI World index

Share class screened: GB00B2R8FL62 (A Acc)

## Portfolio characteristics (June 2011)

No. of holdings	69
% in top 10	24.2
Turnover ratio (%)	101.6

## Top 10 holdings

	%
Royal Dutch Shell	2.9
BAT	2.7
Nestlé	2.6
Novartis *	2.6
Allianz	2.6
Verizon Communications *	2.5
BNP Paribas	2.3
CenturyLink	2.1
Standard Chartered	2.0
BASF *	1.9

\* In top 10 holdings a year ago

## Sector allocation

	%
Basic materials	7.0
Consumer discretionary	11.0
Consumer staples	12.0
Financials	21.0
Healthcare	15.0
Industrials	3.0
Oil & gas	10.0
Technology	3.0
Telecoms	12.0
Utilities	4.0
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-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.