

Legg Mason Investments

Luxembourg domiciled FCP - Part 1

Report Issued: June 2008

Peer Group:

Global Emerging Markets Equities

Fund Manager/Adviser:

Aquico Wen (since January 2001)

Location:

London

Launch Date:

January 1996

Fund Size (April 2008):

US\$1.5bn

Group Contact No:

+352 45 1414 332

Website:

www.leggmason.co.uk

S&P ID Number:

EM358122

Share class screened:

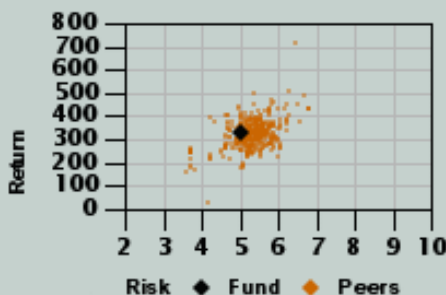
I Ord USD



INVESTMENT STYLE

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

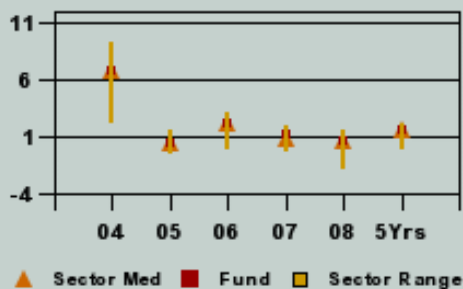
RISK RETURN (STD DEVIATION) OVER 5 YEARS



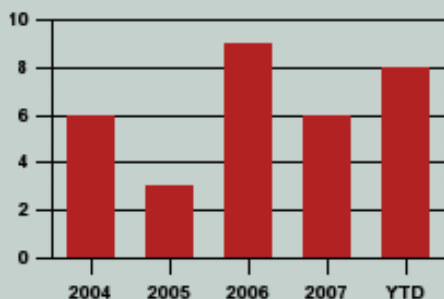
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	Low	-14.9
Volatility	Medium	18.0
Correlation	High	1.0
Beta	Medium	0.9

SHARPE RATIO VS PEER GROUP



CALENDAR YEAR DECILE RANKS



Decile ranking in discrete annual periods. 1st decile shown as rank 10, 2nd decile as rank 9, etc. to 10th decile as Rank 1.

Please see page 2 for required research analyst certification disclosure.

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

Performance Data Source - © 2007 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/03/2008 on NAV to NAV basis, with gross income reinvested, in US Dollars.

STANDARD & POOR'S OPINION (MAY 2008)

This fund is managed using a highly structured and disciplined, benchmark-aware process by manager Aquico Wen. Companies are analysed by a dividend discount model, and then rated by the analytical team from one (best) to five (worst) based on valuation, earnings momentum and likelihood of an earnings surprise. Portfolio construction aims to be broadly neutral to the benchmark at sector and country level, with stock selection expected to drive returns. However, the index is then divided into 10 industry groups for each country, giving 190 "cells". The "critical cells" (areas with an index weighting of over 1%) are then populated with either the analysts' best ideas or, failing that, a portfolio diversifier is bought at a neutral weight. While this has benefits for risk control, it may mean the portfolio holds ideas in which the analysts do not have strong conviction.

The fund has performed well in the context of our S&P peer group - it ranks second quartile over three years cumulatively and first quartile volatility-adjusted. However, it is struggling to meet its own objective of outperforming the MSCI Emerging Markets index by 4% over a market cycle. The target looks extremely demanding given the strict constraints of the mandate outlined above, which effectively limit the risk taken and the scope for managerial flair.

Despite this, we acknowledge the consistency of the approach, its highly disciplined nature, and the solid track record within our peer group, which underpin the fund's continued S&P A rated status.

FACT FILE

Group: Legg Mason Investments is part of Legg Mason Inc, a global asset management company with a history stretching back to 1899 and listed on the NYSE since 1983. After acquiring the asset management part of Citigroup in December 2005, Legg Mason became the fifth-largest money manager in the US.

Team: The team of three emerging markets portfolio managers, with an average of 16 years' experience, is supported by two dedicated country strategists and eight equity analysts.

Fund Manager: Aquico Wen has 14 years' emerging markets experience, including 10 with

Citigroup/Legg Mason. He has managed this fund since January 2001.

Style: A highly structured, research-oriented approach, combining top-down, country-level economic analysis with fundamental company research by the analyst team, based around a dividend discount model.

Performance: Over the five years to 31/03/2008, the fund has returned 332.7%, compared with 319.7% for the sector median and 389.2% for the index, ranking 182/459.

FUND MANAGER & TEAM

The team comprises four fund managers, three of whom are emerging market specialists and two country strategists. The fourth portfolio manager, Erda Gercek (originally part of the country strategy team) now manages alpha extension products. They are supported by eight dedicated emerging markets sector analysts. Total team assets under management of more than \$5bn are split between five separate strategies - core emerging markets (of which this fund is part) which aims for 4% excess return over the market cycle; concentrated (4-6% excess return); small-cap (4-6%); alpha extension (6-8%); and market neutral (10-15%).

Aquico Wen - head of emerging markets equity - economics (Wharton School), began his career with Price Waterhouse in tax arbitrage. He joined JP Morgan as an equity analyst and moved to Citigroup in 1998.

Roger Garrett - portfolio manager - BComm management, MA economics & management (University of Canterbury, New Zealand), was fixed income manager at Colonial Mutual, then head of research at Francis Allison Symes, before joining Citigroup in 1991. He is responsible for coverage of Russia and South Africa.

Anand Ramachandran - technology (G B Pant University, Naintal), MBA (Indian Institute of Management), joined Alliance Capital as an analyst in 1994 after initially working as an engineer. He joined what is now Legg Mason International Equities in 1998 as an analyst and became a fund manager in 2007.

PORTFOLIO CHARACTERISTICS

No. of holdings	114
Turnover ratio (%)	N/A
% in top 10	24

TOP 10 HOLDINGS (01/04/08)

	%
Petrobras	4.8
Gazprom *	4.3
China Mobile *	2.4
TAM	2.0
MTN Group	1.8
China Resources Enterprise	1.7
ICBC	1.7
Standard Bank *	1.7
Hyundai	1.6
Mechel	1.6

* In top 10 holdings a year ago

ALLOCATION BREAKDOWN (01/04/08)

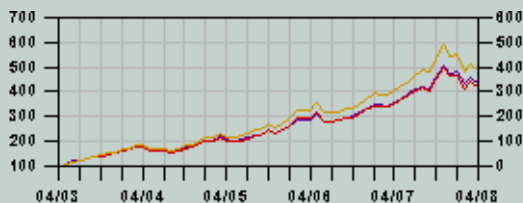
	Fund %
Baltics	-
Brazil	16
Central Asian Republics (Kazakhstan..)	1
China	13
Croatia	-
Czech Republic	-
Egypt	1
Hungary	1
India	6
Israel	1
Korea	10
Middle East / Arab Peninsula	-
Morocco	-
Poland	-
Russia	13
Slovakia	-
Slovenia	-
South Africa	6
Taiwan	10
Thailand	6
Turkey	1
Others	12
Cash	3

Ucits III permits net fund exposure to be less or greater than 100%.

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	108.8%	332.7%
Standard & Poor's Peer Median	105.9%	319.7%
Index**	123.2%	389.2%
Fund Rank	233/550	182/459
Standard Deviation	18.0	-
Relative Standard Deviation	0.9	-
Volatility Adjusted Ranking	97/550	-

CUMULATIVE PERFORMANCE



Page 1 S&P/IFCI Composite USD | Global Emerging Markets Mainstream | Fund

LEGG MASON EMERGING MARKETS EQUITY FUND

Peer Group: Global Emerging Markets Equities



MANAGEMENT STYLE

- The fund is run by a highly structured process, aiming to beat the MSCI EM US\$ benchmark by 4% over a market cycle, subject to an 8% maximum tracking error.
- Company analysis is based on a dividend discount model, with a discount rate derived from variables including country-level analysis of external debt, political risk, GDP growth and foreign exchange reserves.
- The global sector analysts rate stocks one (best) to five (worst) based on valuation, earnings momentum and likelihood of an earnings surprise. Portfolio construction aims to be broadly neutral to the benchmark at sector and country level. The index is divided

into 10 industry groups for each country, giving 190 "cells". The process focuses first on those with an index weight of over 1%. In these "critical cells" analysts' best ideas are overweighted by 2.5% and good ideas by 1%. If there are no one- or two-rated stocks, a portfolio diversifier is bought at a neutral weight. Non-critical cells are zero-weighted if no ideas are found.

- The three fund managers each specialise in a geographic area but run the fund in a collegiate manner. Risk constraints are +/-5% countries, +/-8% sectors, +/-2% cells and +2% for stocks.

PORTFOLIO REVIEW

With 114 stocks compared with 118 last year and a top 10 concentration that is hardly changed at 24%, there have been few major shifts in the portfolio since our last review. Country and sector exposures were remarkably close to benchmark, the only notable exceptions being the zero exposure to Poland due to its high risk premium (2% of the index), a 3% underweight position in Korea, an overweight to Thailand (3%) and Russia (4%), and a slight tilt towards telecoms (+3%). The fund did, however, retain its traditional

bias to small and mid-caps, but sought to limit this by funding buy ideas in small-caps through sell ideas within the same space.

At stock level, six of the top 10 holdings were unchanged from last year. The largest active bets comprised TAM (Brazilian airline), China Resources (exposure to Chinese domestic demand) and Mechel. The most significant underweight positions included CVRD, Lukoil and Reliance Industries.

PERFORMANCE ANALYSIS (APRIL 2008)

After a poor 2005, performance of the institutional share class ranked above the median fund in our peer group in 2006 and 2007. Over three and five years cumulatively the fund ranks second quartile versus peers; volatility adjusted this rises to first quartile over three years. However, the constraints of the mandate render the fund's own performance objectives difficult to attain, as the benchmark-aware nature of portfolio construction prevents the fund from taking the

level of risk needed to achieve the requisite return.

In 2007 the fund performed in line with benchmark but above peer group median, although its small-cap bias meant it struggled in H2 as large-caps outperformed. Sector contribution was marginal, with the underperformance of financials offset by telecoms, materials and industrials. At stock level, Mechel and SK Holdings performed strongly, but this was partially offset by TAM and Krung Thai Bank, which disappointed.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/03/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	22.3	237/495	27.9	398/540	35.5	88/572	36.4	294/589	-10.1	182/587
Index**	28.1		35.2		35.1		40.3		-11.3	
Median	22.2		31.8		30.9		36.4		-11.3	

** S&P/IFCI Composite USD

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