# LEGG MASON GLOBAL FUNDS PLC ROYCE SMALLER COMPANIES FUND

**Legg Mason Investments**

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

**Report Issued:** January 2009

**Peer Group:**
US Small and Mid Cap Equities

**Fund Manager/Adviser:**
Whitney George (since March 2007), Lauren Romeo (since March 2007)

**Location:**
New York

**Launch Date:** March 2004

**Fund Size (September 2008):**
US$58m

**Group Contact No:**
+353 539 149 999

**Website:**
www.leggmason.co.uk

**S&P ID Number:** GA360490

**Share class screened:**
A

STANDARD & POOR'S AA FUND MANAGEMENT RATING

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

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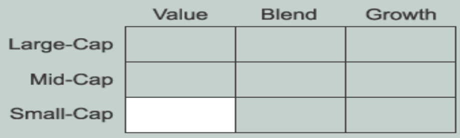
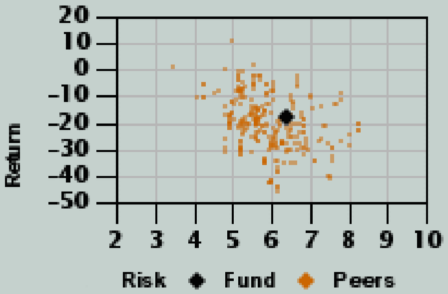
## INVESTMENT STYLE



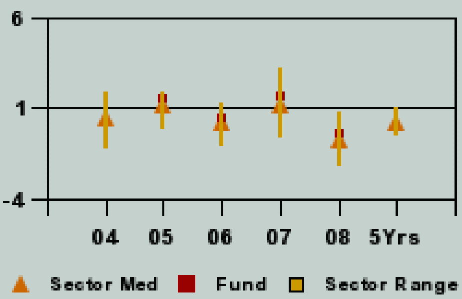

## RISK RETURN (STD DEVIATION) OVER 3 YEARS



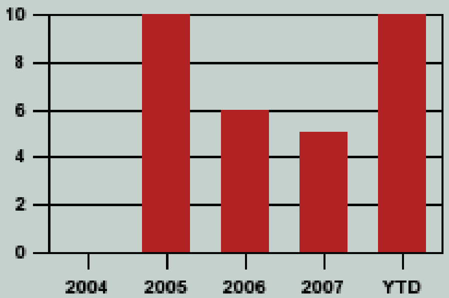

## 3 YEAR RISK CHARACTERISTICS

| | | |
|---|---|---|
| Maximum Drawdown (%) | Low | -12.1 |
| Volatility | Medium | 13.3 |
| Correlation | High | 0.9 |
| Beta | High | 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.

## STANDARD & POOR'S OPINION (NOVEMBER 2008)

Management of this fund is delegated to Royce & Associates, a New York-based subsidiary of Legg Mason with a track record of over 30 years managing US smaller companies portfolios. Current managers Whitney George and Lauren Romeo were appointed in March 2007.

George leads on this mandate. He is an experienced small-cap specialist with a strong record of managing portfolios in his characteristic quality-oriented approach. Even adjusting for the lower fees, his record on the US-domiciled Royce Value Fund has been consistently above our sector median for the past five years. His style resembles the one made famous by Warren Buffett in that it looks for quality, balance sheet strength, high returns on investment capital, proven ability to allocate capital and attractive valuations. This results in a contrarian value-driven approach. While bottom-up considerations are clearly the driving factor, George also uses his broad top-down view to direct the research effort and point co-manager Romeo towards the areas of the market that are worth analysing.

The resulting portfolio is built on conviction and with a gradualistic long-term style. Risk controls are largely self imposed and George is keenly aware of where risk is coming from in the portfolio.

Under the current duo, the fund has performed strongly, recently helped by having around 15% in cash, although this was driven by lack of attractive opportunities rather than a market view.

The manager's experience and the clarity and success of his investment approach warrant an upgrade to S&P AA (New).

## FACT FILE

**Group:** Legg Mason Investments is part of Legg Mason Inc, a global asset management company with a history stretching 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:** Royce & Associates became a subsidiary of Legg Mason in 2001. It retained its focus on US small-/micro-cap value investing, where it has over 30 years' experience and over $20bn under management.

**Fund Manager:** George has 27 years' experience and is an established and senior member of the Royce team, which has built a successful track record. Co-manager Romeo has 14 years' experience.

**Style:** The investment approach is long term, value oriented, contrarian and risk averse, and emphasises quality companies.

**Performance:** Over the three years to 29/08/2008, the fund has returned 29.9%, compared with 11.9% for the sector median and 14.8% for the index, ranking 45/298.

## FUND MANAGER & TEAM

Royce & Associates was established in 1972 by Charles Royce to manage US mid-, small- and micro-cap portfolios. The firm now manages assets in excess of $20bn. It has maintained its investment independence, its approach and its experienced team of nine portfolio managers, nine analysts and six traders. Specific to this fund are:

Whitney George - BA (Trinity College), started his investment career in 1981. Before joining Royce in 1991 he worked for various brokerages. He is part of the senior management team.

Lauren Romeo - senior analyst and assistant portfolio manager - BA (University of Notre Dame), MBA (Wharton School, University of Pennsylvania), has 14 years' industry experience and joined Royce in 2004.

Charles Royce - BA, MBA (Columbia University), has been in the industry for over 40 years and managed money for 36 years. He launched Royce & Associates in 1972. Royce was previously an analyst at Blair & Co and director of research at Scheinman, Hochstin & Trotta.

# LEGG MASON GLOBAL FUNDS PLC ROYCE SMALLER COMPANIES FUND

**Peer Group:** US Small and Mid Cap Equities

STANDARD &POOR'S AA FUND MANAGEMENT RATING

## PORTFOLIO CHARACTERISTICS

| | |
|---|---|
| No. of holdings | 92 |
| Turnover ratio (%) | N/A |
| % in top 10 | 18 |

## TOP 10 HOLDINGS (01/09/08)

| | % |
|---|---|
| Unit Corporation | 2.1 |
| 2 Sims Group Limited - Spon ADR | 2.0 |
| Ensign Energy Services | 2.0 |
| Gardner Denver | 1.9 |
| Fossil | 1.8 |
| Knight Capital Group | 1.7 |
| Lincoln Electric | 1.7 |
| Oil States | 1.6 |
| Tesco Corporation | 1.6 |
| Thor Industries | 1.6 |

** In top 10 holdings a year ago*

## ALLOCATION BREAKDOWN (01/09/08)

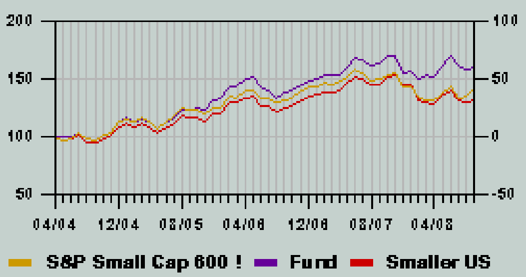
| | Fund % |
|---|---|
| Bonds preferreds | 0.0 |
| Consumer products | 8.0 |
| Consumer services | 3.0 |
| Diversified investment companies | 0.0 |
| Financial intermediaries | 7.0 |
| Financial services | 1.0 |
| Health | 1.0 |
| Industrial products | 21.0 |
| Industrial services | 13.0 |
| Natural resources | 26.0 |
| Technology | 12.0 |
| Treasuries cash | 8.0 |
| Utilities | 0.0 |

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

## PERFORMANCE STATISTICS

| | 3 Years |
|---|---|
| Fund | 29.9% |
| Standard & Poor's Peer Median | 11.9% |
| Index** | 14.8% |
| Fund Rank | 45/298 |
| Standard Deviation | 13.3 |
| Relative Standard Deviation | 1.0 |
| Volatility Adjusted Ranking | 45/298 |

## CUMULATIVE PERFORMANCE




## MANAGEMENT STYLE

- The fund is benchmarked against the Russell 2000 index, aiming to produce strong absolute and relative returns on a risk-adjusted basis.

- The approach is long term, value oriented and contrarian. There is an emphasis on quality in terms of balance sheet strength, low financial leverage and management ability to produce high returns on invested capital. Industry dynamics play a part in forming a three- to five-year view. Companies are bought when short-term valuation levels are attractive, which often means a single-digit prospective P/E ratio. Analysts/managers have contact with five to 10 companies a day. Ideally, companies will be bought at a discount of 30-50% to fair value, affording a wide margin of safety.

- Portfolio construction is primarily bottom-up from a universe of companies \$500m-\$5bn in size. Stock weights are set on conviction and built gradually with favourite stocks (A) representing around 30% of assets and B ideas held at around 40%. The rest is in C stocks, which are stocks currently being researched or where conviction is not yet full.

- Risk is controlled through diversification into around 100 stocks. Individual stocks may rise to 3%, but are usually under 2%.

## PORTFOLIO REVIEW

The recent correction has brought several opportunities and George has been adding to stocks currently out of favour in energy and financials. Greenhill Corp is an example of a recent purchase in the financial area and is liked for its low debt and international exposure. Having reached 15% of the total assets at the end of 2007, the cash balance has gradually come down and is currently around 7%.

The fund remained biased towards cyclicals and natural resources accounted for around 26% of the portfolio. Sims Group, a metal management company, is an example of investment in this market area. The position was reduced earlier in the year but is now being gradually rebuilt as the price has significantly corrected.

The portfolio was biased towards stocks at the upper end of the permitted range. At review, around 70% of the total assets were invested in stocks capitalised above \$1bn.

George has a negative view on the dollar and favours companies with international exposure.

## PERFORMANCE ANALYSIS (SEPTEMBER 2008)

The change of managers has not spoiled the fund's strong track record against both peers and Russell 2000 index. On taking over this fund in March 2007, George and Romeo restructured around 25% of it, reducing the exposure to C ideas and focusing the portfolio around their conviction names.

Performance for rest of 2007 was strong. Successes included Schnitzer Steel, Meridian Gold and Woodward Governor. By contrast Arkansas Best, Trican Well Service and Knight Capital were weak. Several stocks were also the object of takeover bids (Chaparral Steel).

George was deliberately slow to re-invest the cash derived from the M&A activity, as he was struggling to find attractively priced stocks and let the cash balance reach 15%. This has served him well in 2008, in particular during the summer when several cyclicals, where the fund has considerable exposure, have corrected significantly. Furthermore, maintaining a low exposure to financials has also helped.

DISCRETE PERFORMANCE (CALENDAR YEARS)

| | 2004 | | 2005 | | 2006 | | 2007 | | YTD 29/08/2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | % | Rank | % | Rank | % | Rank | % | Rank | % | Rank |
| Fund | | / | 13.3 | 19/287 | 12.9 | 154/308 | 4.8 | 206/341 | 1.8 | 13/346 |
| Index** | 22.6 | | 7.7 | | 15.1 | | -0.3 | | -1.2 | |
| Median | 15.5 | | 7.2 | | 13.0 | | 8.0 | | -8.1 | |

** S&P 600 Small Cap TR