LEGG MASON GLOBAL FUNDS PLC ROYCE US SMALL CAP OPPORTUNITY FUND

Legg Mason Investments

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

Report Issued: September 2009

Peer Group:
US Small and Mid Cap Equities

Fund Manager/Adviser:
William Hench (since May 2009)

Location:
New York

Launch Date: November 2002

Fund Size (May 2009):
US$39m

Group Contact No:
+353 539 149 999

Website:
www.leggmason.co.uk

S&P ID Number: OS353910

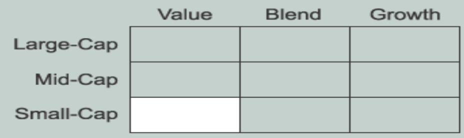
Share class screened:
A

STANDARD & POOR'S A FUND MANAGEMENT RATING

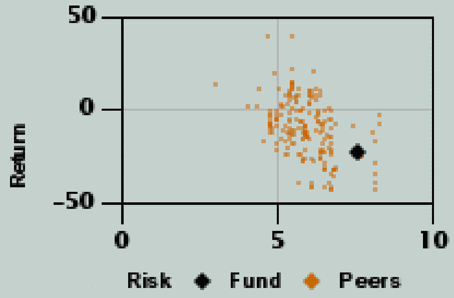
Further information on S&P's fund coverage can be found at www.FundsInsights.com

Performance Data Source - © 2009 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 30/04/2009 on NAV to NAV basis, with gross income reinvested, in US Dollars.

INVESTMENT STYLE



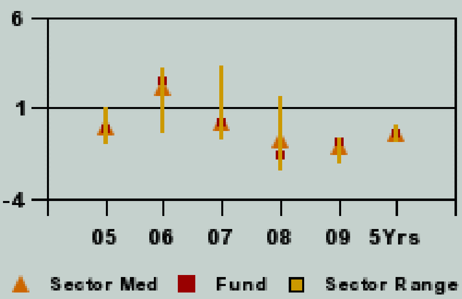
RISK RETURN (STD DEVIATION) OVER 5 YEARS



3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	High	-65.4
Volatility	High	30.6
Correlation	High	1.0
Beta	High	1.3

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 (AUGUST 2009)

Management of this Irish-domiciled Legg Mason fund is delegated to Royce & Associates, a New York-based subsidiary with a track record of over 30 years specialising in US small- and micro-cap portfolio management. The fund provides highly diversified exposure to US companies capitalised below $2.5bn with a long-term, contrarian bias.

The named fund manager has recently changed from Boniface "Buzz" Zaino to former co-manager, William Hench. Hench continues to manage it in the same distinctive style - trawling the whole micro-cap universe (some 7,000-8,000 companies) for potential investments which may even include distressed debt. The hallmark of the house style is a broadly diversified portfolio of between 275 and 325 names. This is seen as necessary to minimise the impact of the inevitable blow ups in this segment of the market. Portfolio construction is bottom-up and risk management, illustrated primarily by the level of diversification, is a priority in this relatively high-risk area.

While the fund continues to rank top quartile over the period since launch, it has fallen into the bottom quartile over three years. Performance continued to be poor throughout the market downturn (during which time Hench continued to add to his favourite stocks) but has seen a sharp recovery since March when the market bounced back, together with many of the fund's holdings.

Although the change of lead manager from Zaino to Hench results in no significant change in style, Hench has considerably less experience and as a result the fund slips one band to 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 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: William Hench has 16 years' industry experience, six of which have been at Royce under the leadership of team head Boniface Zaino. Zaino has 40 years' experience, 31 as a fund manager.

Style: This highly diversified micro-cap portfolio is run from the bottom up. It is diversified across four themes: unrecognised value, turnarounds, undervalued growth and interrupted earnings.

Performance: Over the five years to 30/04/2009, the fund has returned -23.0%, compared with -9.8% for the sector median and -0.6% for the index, ranking 160/204.

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 $17bn including $1.8bn in specific micro-cap mandates, all to this style. Acquired by Legg Mason in October 2001, the firm has maintained its investment independence, its approach and its experienced team of nine portfolio managers, nine analysts and six traders.

William Hench - senior analyst and assistant portfolio manager - BBA (Aldephi University), has 16 years' investment experience and joined Royce 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.

Darshana Magan - finance (University of South Alabama) began her investment career in 2005 and joined Royce in July 2007.

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Peer Group: US Small and Mid Cap Equities

STANDARD &POOR'S A FUND MANAGEMENT RATING

PORTFOLIO CHARACTERISTICS

No. of holdings	288
Turnover ratio (%)	N/A
% in top 10	7

TOP 10 HOLDINGS (01/05/09)

	%
Bottomline Technologies	1.0
Hanesbrand	1.0
Tekelec	1.0
Collective Brands	0.9
Crane	0.9
EarthLink	0.9
Maxwell Technologies	0.9
Penske Automotive	0.9
Temple-Inland	0.9
Hexcel Corporation	0.8

** In top 10 holdings a year ago*

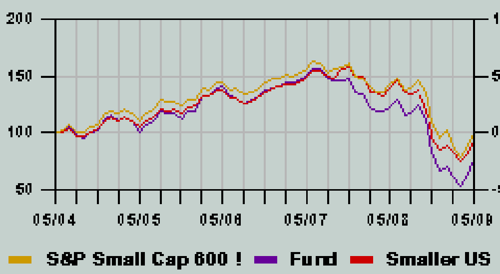
ALLOCATION BREAKDOWN (01/05/09)

	Fund %
Bonds and Preferreds	0.0
Cash	4.0
Consumer products	5.0
Consumer staples	14.0
Diversified investment companies	0.0
Financial intermediaries	4.0
Financial services	0.0
Health	5.0
Industrial products	24.0
Industrial services	7.0
Natural resources	4.0
Technology	33.0
Utilities	0.0

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	-45.3%	-23.0%
Standard & Poor's Peer Median	-33.3%	-9.8%
Index**	-31.5%	-0.6%
Fund Rank	246/280	160/204
Standard Deviation	30.6	-
Relative Standard Deviation	1.3	-
Volatility Adjusted Ranking	152/280	-

CUMULATIVE PERFORMANCE



MANAGEMENT STYLE

- This is an unconstrained portfolio of US micro-caps capitalised at under $500m and small-caps valued at up to $2.5bn. The benchmark is 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 275-325 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%.

PORTFOLIO REVIEW

Since our review in October 2008, the fund's size has fallen from $76m to $39m (having fallen dramatically from $258m over the preceding 12 months). The number of holdings has risen slightly from 271 to 288 because the manager has taken advantage of value opportunities in the market to add new names. Cash, which had built up to 8%, has, therefore, fallen again to a more usual level of 3.5%.

The average market cap of the portfolio has increased and is now $546m compared with $505m last year: 61% below $500m (compared with 44%) and 36% (was 27%) in those capitalised between $500m and $2.5bn. There was 3% in those above $2.5bn.

Compared with October 2008, there was virtually no change to the theme weightings, which were undervalued growth 35%; turnarounds 32%; interrupted earnings 16% and unrecognised asset values 18%.

Technology remained the largest sector and at 32% represents a slight increase on 31% at our last review, although it is down from the high of 37% in 2006.

PERFORMANCE ANALYSIS (JUNE 2009)

The fund had a very difficult time from October 2008 to March 2009 as this segment of the market was one of the most badly hit in the sell-off, largely owing to hedge fund participation. The fund fell by around 50% and this has severely hurt cumulative returns, to the extent that the fund now ranks bottom quartile over five years

2007 was disappointing, partly for reasons outside the manager's control when poor liquidity made trading in small-/micro-caps very expensive. Furthermore, a 15% unexpected redemption in July/August did not help. Underperformance also came from holding "old media", which went down further than the market. Stock successes included Robbins & Myers, DryShips and SGL.

In the first half of 2008 relative returns improved and many long-term holdings continued to show a profit (in absolute terms) despite significant market falls. However, relative and absolute returns were hit in the prolonged downturn, but have shown a strong bounce back since March 2009.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2005		2006		2007		2008		YTD 30/04/2009	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	3.5	195/246	17.9	55/275	-4.6	278/320	-47.7	277/346	9.4	52/378
Index**	7.7		15.1		-0.3		-31.1		-2.3	
Median	7.4		12.4		8.3		-41.0		3.5	

** S&P 600 Small Cap TR

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