

Legg Mason Investments

Sub-fund of Irish domiciled open-ended investment company

Report Issued: December 2006

Peer Group:

Global Bond Funds in Dollars
Hedged

Investment Objective:

Income

Fund Manager/Adviser:

Ian Edmonds (since inception),
Mike Zelouf (since inception)

Location:

London

Launch Date: February 2004

Fund Size (October 2006):

US\$141m

Fund Benchmark:

Citi 1m T-bill

Group Contact No:

+353 5391 49710

Website:

www.leggmason.co.uk

S&P ID Number: OS360478

Share Class screened:

Ord

Details of fund charges and other
share classes can be found on

www.funds-sp.com.

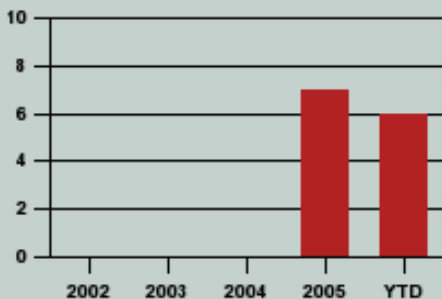


INVESTMENT STYLE

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			

AS THE FUND IS LESS THAN THREE YEARS OLD THERE IS INSUFFICIENT PERFORMANCE DATA FOR RISK/RETURN ANALYSIS.

CALENDAR YEAR DECILE RANKS



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

All statistical data on this report has been run to 29/09/2006 on NAV to NAV basis, with gross income reinvested, in US Dollars.

STANDARD & POOR'S OPINION (DECEMBER 2006)

This fund draws on the same process and large, experienced team as Legg Mason Global Funds - Western Asset Global Multi Strategy Fund but has a more conservative mandate. It was originally launched as a Dutch Antilles vehicle in 1992, when US LIBOR was over 8%, but transferred to an Irish domicile in February 2004. The aim is to provide a higher income than US dollar cash while maintaining a reasonable degree of capital stability.

The fund invests in credit (including high yield), asset-backed securities (particularly US mortgages) and government securities, including non-US issuers, on the assumption that these asset classes will add return while reducing risk by remaining relatively uncorrelated. It can take currency exposure, but this is usually below 10%.

The allocation between the asset classes is decided by Western's asset allocation committee and can

vary widely. For example, Treasuries and US mortgages have gone from about 10% to 50% in the last eighteen months. Western estimates that more than half the added value comes from these top-down decisions. Security selection is delegated to specialist teams and the fund can invest in other Legg Mason funds, such as the US\$ High Yield Bond Fund, if this is more efficient.

Performance has been positive in every calendar year since the Dutch Antilles fund was launched, except 1994, and the fund has outperformed US dollar cash before fees in most years. It has outperformed its benchmark by 38bps before fees this year to end-September.

The strong team and well constructed process enable the fund to achieve an AV2 rating.

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 all of the asset management part of Citigroup in December 2005, Legg Mason became the fifth largest money manager in the US.

Team: This fund is managed by Western Asset Management, a specialist fixed-income manager owned by Legg Mason. It uses Western's full team of over 100 investment professionals.

Fund Manager: Mike Zelouf has worked at Western since 1989 and is a member of the emerging markets team. Ian Edmonds joined the team in 1994 and is a high yield specialist.

Style: This is a short-medium bond fund with a high exposure to global fixed-income but the aim of achieving a high US dollar income with limited capital risk.

Performance: Since launch to 29/09/2006, the fund has returned 9.6%, compared with 7.3% for the sector median and 11.1% for the index, ranking 7/36.

FUND MANAGER & TEAM

Western Asset Management, based in Pasadena, is owned by Legg Mason. It is a specialist fixed-income manager with over 100 investment professionals managing about \$541bn, of which about \$1bn is in global multi-strategy mandates. Team members involved in this fund are:

Ian Edmonds - graduate (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.

Mike Zelouf - BSc (Imperial College, London), CFA, started his financial career at Fuji International Finance in 1987 as a portfolio manager. He moved to Western Asset Management in 1989.

PORTFOLIO CHARACTERISTICS

No. of holdings	261
Turnover ratio (%)	76
Modified duration (years)	1.86
Portfolio yield(%)	6.34

SOURCES OF RETURN (01/10/06)

	Low Emphasis	Average Emphasis	High Emphasis
Portfolio Duration		██████████	
Credit Spreads			██████████
Country / Sectors			██████████
Yield Curve Positioning		██████████	
Currency Exposure		██████████	
Alt. Fixed Income	██████████		
Derivatives	██████████		
Trading Strategies	██████████		
Quant. Value Techniques	██████████		

BREAKDOWN BY CREDIT RATING (01/10/06)

	%
Unrated Securities	0.0
AAA	59.0
AA	1.0
A	11.0
BBB	4.0
BB	3.0
B & below	22.0
Debentures	0.0

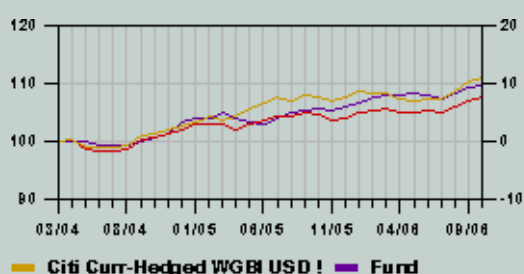
PORTFOLIO EXPOSURE

	Fund	
	Bond	Curr
Cash	0.0	0.0
North America	80.0	97.0
Europe (ex UK)	13.0	1.0
United Kingdom	2.0	0.0
Japan	0.0	0.0
Others	5.0	2.0

PERFORMANCE STATISTICS

	Launch
Fund	9.6%
Standard & Poor's Peer Median Index*	7.3%
Fund Rank	7/36
Annualised Standard Deviation	-
Relative Standard Deviation	-
Volatility Adjusted Ranking	-

CUMULATIVE PERFORMANCE



LEGG MASON GLOBAL FUNDS - WESTERN ASSET DIVERSIFIED STRATEGIC INCOME BOND FUND

Report Issued: December 2006

STANDARD & POOR'S

A/V2
FUND MANAGEMENT RATING

MANAGEMENT STYLE

- This fund aims to provide a high level of income in US dollars while maintaining a reasonable degree of capital stability. Although it is benchmarked against a 1m Treasury bill index, it can and does take duration risk, between zero and five. It invests in three broadly diversified sub-portfolios in relatively uncorrelated asset classes: credit (including high yield), asset-backed securities (especially US mortgages) and global fixed-income.
- The process is similar to Western Asset Global Multi Strategy Fund and draws on the same team. The global strategy team of nine senior managers sets broad top-down themes and individual specialist teams make

recommendations on sector and security allocation and currency views.

- Edmonds implements these ideas in line with the fund's guidelines. It is usually in each of the three asset classes but can redeem completely from any if market conditions warrant it.

- The global fixed-income portion can include local currency debt of any investment-grade country, including those formerly considered emerging. Currency exposure is often hedged. Usually no more than 10% of the fund is in non-dollar currencies.

PORTFOLIO REVIEW

The fund's duration was just under two years at the time of review but this is misleading, as 6% of the fund was in TIPs that may not correlate well with changes in nominal interest rates.

The team had only 8% in investment-grade corporate bonds as they feel spreads are too tight. Instead they have increased exposure to high yield corporates, with a bias to the shorter end of the curve in case the US economy is weaker than expected. About 15% of the fund is in the Legg Mason US\$

High Yield bond fund and 10% in individual securities. They also had nearly 40% exposure to US mortgage-backed as they believe the Fed is unlikely to move rates dramatically in the near future and thus the fund can benefit from the extra yield without being affected by the negative convexity of the asset class.

There was about 10% in foreign government bonds, including South Africa, Mexico and Poland in local currencies, but 97% of the currency exposure was in the US dollar bloc.

PERFORMANCE ANALYSIS (OCTOBER 2006)

Although this fund has a relatively short track record, it was re-domiciled from a BVI fund in 2004 and we have used the track record of the previous version, which was launched in 1992, in making our assessment.

The fund has achieved positive absolute returns before fees in 96% of rolling 12-month periods since launch and has outperformed cash in 79% of them. Less good years were 1994 and 1999/2000 and 1994 was the only calendar year when the fund lost money. Overall, returns have come more from top-

down asset allocation shifts between sectors than from bottom-up security selection, although bottom-up selection is always important in high yield.

In 2006 to end-September, the fund has outperformed its benchmark by 38bps before fees. High yield has been a useful source of income and mortgage-backed has broadly worked. The global fixed-income allocation has been more volatile, both due to relative interest-rates and the small amount of currency exposure.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2002		2003		2004		2005		YTD 29/09/2006	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund		/		/		/		18/45	2.7	25/51
Index*	8.0		1.9		4.8		5.1		2.4	
Median	7.1		4.8		4.3		1.7		2.6	

* Citi Curr-Hedged WGBI USD!

All of the views expressed in this research report accurately reflect our committee's views regarding any and all of the subject securities or issuers. No part of the committee's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. © [2006] The McGraw-Hill Companies, Ltd trading as Standard & Poor's ("S&P") 20 Canada Square, Canary Wharf, London, E14 5LH Tel: +44 (0)20-7176 3800. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds.sp.com/terms.cfm?langid=1>