

Legg Mason Investments Luxembourg domiciled FCP - Part 1

Report Issued: April 2008

Peer Group:

Eurozone Fixed Interest

Investment Objective:

Total Return

Fund Manager/Adviser:

Detlev Schlichter (since March 2006)

Location:

London

Launch Date:

January 2001

Fund Size (February 2008):

€62m

Fund Benchmark:

Citigroup Euro Broad Investment Grade

Group Contact No:

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Website:

www.leggmason.co.uk

S&P ID Number:

OS356681

Share Class screened:

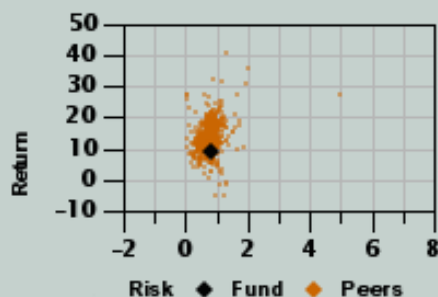
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INVESTMENT STYLE

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			

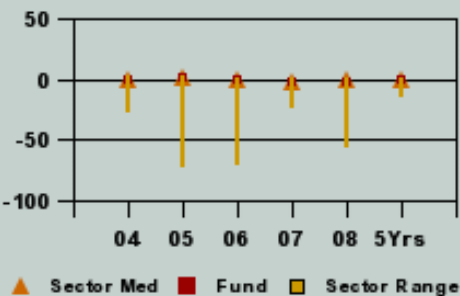
RISK RETURN (STD DEVIATION) OVER 5 YEARS



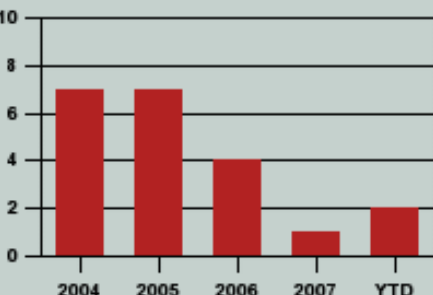
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	Low	-4.2
Volatility	Low	2.7
Correlation	High	0.8
Beta	Medium	0.7

SHARPE RATIO VS PEER GROUP



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.

Performance Data Source - © 2007 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/01/2008 on NAV to NAV basis, with gross income reinvested, in euro.

STANDARD & POOR'S OPINION (JANUARY 2008)

This fund has changed considerably since Western took over its management in March 2006. Western quickly brought the portfolio into line with its Euro Core process and Legg Mason revised the prospectus so it could be managed in line with Western's Euro Core Full Discretion Broad Investment Grade Composite. This was completed in September 2007. The benchmark is still the Citi EuroBIG index but the fund can now hold up to 30% in non-euro denominated bonds and up to 10% in non-euro currency exposure. The tracking error is not expected to be more than 200bps.

As a result of these changes, the previous track record is irrelevant and we have reviewed Western's Composite instead. This outperformed the Citi

EuroBIG index before fees in every calendar year since 2003, apart from 2007, when a significant overweight in subordinated financial paper and a large off-benchmark position in US mortgage-backed dragged down returns. We note that Western's process has a strong value flavour and therefore they can be 'too early' both entering and exiting positions, which can lead to periods of underperformance. However, the composite has outperformed the benchmark over the last five years cumulatively.

We respect Western's process, which is very structured and team-driven, and this enables the fund to achieve an S&P A(New)/V3 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 the asset management part of Citigroup in December 2005, Legg Mason became the fifth-largest money manager in the US.

Team: The London-based fixed-income team has 25 investment professionals. It manages about \$91bn in Global, European and UK mandates but draws on the wider Western team as necessary.

Fund Manager: Detlev Schlichter is head of the London fixed-income team but the Western process is strongly team-based.

Style: The investment style is driven by fundamental analysis of relative value. Issue selection is mainly driven by bottom-up research.

Performance: Over the five years to 31/01/2008, the fund has returned 9.2%, compared with 14.1% for the sector median and 21.2% for the index, ranking 827/923.

FUND MANAGER & TEAM

Legg Mason has delegated management of this fund to Western Asset Management, a specialist fixed-income manager based in Pasadena. Western's worldwide fixed-income team has about 140 members but this fund is the responsibility of the London-based team, who draw on the wider team as necessary. London manages about \$91bn total, of which about \$10bn is European fixed-income.

Detlev Schlichter - Economics (University of Bochum), started his career in 1990 at JP Morgan. He moved to Merrill Lynch Investment Managers to head the European bond team in 1998 and joined Western in 2001.

Andres Sanchez Balcazar - BA Economics (Universidad de los Andes), MSc (HEC School of Management), CFA, was an economist at the Central Bank of Colombia from 1997-2000 then joined Merrill Lynch Investment Managers. He moved to Western in 2005.

Jonathan Gregory - has over 20 years of investment experience gained with the Agricultural Mortgage Corporation, Sumitomo Bank and National Westminster Bank. He joined Western Asset Management in 1998 and is head of the London corporate bond team.

PORTFOLIO CHARACTERISTICS

No. of holdings	131
Turnover ratio (%)	94
Modified duration (years)	6.07
Portfolio yield (%)	5.52

SOURCES OF RETURN (01/02/08)

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

BREAKDOWN BY CREDIT RATING (01/02/08)

	%
AAA	34.0
AA	13.0
A	35.0
BBB	11.0
BB	0.0
BB & below	7.0
B	0.0
CCC & below	0.0
Unrated Securities	0.0
Debentures	0.0

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

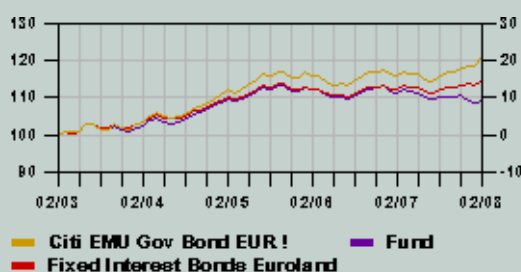
DURATION BREAKDOWN (01/02/08)

	%
0-3 years	17
3-7 years	61
7-10 years	7
10-15 years	13
15+ years	2

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	-0.5%	9.2%
Standard & Poor's Peer Median	4.0%	14.1%
Index**	8.1%	21.2%
Fund Rank	1013/1090	827/923
Annualised Standard Deviation	2.7	-
Relative Standard Deviation	1.0	-
Volatility Adjusted Ranking	1014/1090	-

CUMULATIVE PERFORMANCE



LEGG MASON GLOBAL FUNDS - EURO CORE PLUS BOND FUND

Peer Group: Eurozone Fixed Interest



MANAGEMENT STYLE

- The fund is benchmarked against the Citigroup EuroBIG index but can take off-benchmark bets in European high yield, OECD Europe, non-eurozone investment grade and high yield issues and East European emerging market bonds. However, at least 70% of the portfolio must be in eurozone bonds.
- It can have up to 10% in non-euro currency exposure.
- Western's process is extremely team-based. Western's investment committee set broad top-down guidelines for the sector, duration and currency exposure and sector specialists are responsible for security selection.

- Western is a value manager and many value managers tend to be 'too early' both entering and exiting positions. Therefore the fund can have periods of underperformance generated particularly by its sector bets.

- Duration will be within 1.5 years of index and tracking error is likely to be lower than 200bps. The fund is already fully UCITS III compliant.

- Under Citigroup's management, this fund had about 30-50% in investment-grade corporates, compared to a benchmark weighting of 13%. However, it is now managed in line with Western's Euro Core Full Discretion Broad Investment Grade process.

PORTFOLIO REVIEW

Western was overweight subordinated banks by the end of June 2007 and they increased this position to a 24% exposure (19% overweight) by the end of the year. They were also overweight insurance companies, mostly in subordinated issues.

The new prospectus was not implemented until October, but the manager subsequently put 16% of the portfolio into dollar bonds, particularly US mortgage-backed, with a further 12% in bonds denominated in European currencies. He also took some

small currency positions, being long yen and dollars against euros, sterling and Swedish krona at the time of review.

The team were slightly long duration, using this and the long yen position as a partial diversifier to the spread risk.

The fund's tracking error was about 160bps at the end of January, of which roughly a third was due to the off-benchmark positions in US mortgage-backed and the overweight in financial names was also a significant part.

PERFORMANCE ANALYSIS (APRIL 2008)

The fund's mandate has changed a lot since it was given to Western in March 2006, therefore the track record shown on this report is not a good reflection of its current process. However, the fund has been managed in line with Western's Euro Core Full Discretion Broad Investment Grade Composite since October 2007 and we have used this as a proxy.

The Composite outperformed the Citi EuroBIG index before fees in every calendar year since 2003, apart from 2007 when it underperformed by about 320bps.

The significant exposure to subordinated financials and mortgage-backed securities was responsible for substantially the whole of this. The long duration and currency positions partially offset some of the losses from spread product.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 31/01/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	6.3	397/1013	4.0	353/1088	-0.9	733/1135	-2.8	1105/1176	0.4	1008/1176
Index**	7.6		5.5		-0.4		1.8		2.4	
Median	5.9		3.5		-0.6		0.4		1.7	

** Citi EMU Gov Bond Eur

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