

Legg Mason Value Fund

Market Review

Global equities markets were severely damaged in September, undergoing a meltdown that has only accelerated during the first seven days of trading in October. The Dow Industrials were the standout performer for the month domestically, down "only" -5.83%. As shown below, the S&P 500 Index shed -8.91%, while the broader based Dow Jones Wilshire 5000 Index lost nearly -10%.

| Total Returns | | | |
|-------------------------------|---------|---------|---------|
| | Sept | QTD | YTD |
| S&P 500 Index | -8.91% | -8.37% | -19.29% |
| Dow Industrials | -5.83% | -3.72% | -16.60% |
| Nasdaq Composite Index | -11.60% | -8.59% | -20.64% |
| S&P Mid-Cap 400 Index | -10.71% | -10.87% | -14.35% |
| Russell 2000 Index | -7.97% | -1.11% | -10.38% |
| Dow Jones Wilshire 5000 Index | -9.30% | -8.67% | -18.64% |
| S&P 100 Index | -7.82% | -5.85% | -19.22% |
| Russell 1000 Growth Index | -11.58% | -12.33% | -20.27% |
| Russell 1000 Value Index | -7.35% | -6.11% | -18.85% |

Sources: Wilshire, Russell, NASDAQ via (Bloomberg) and S&P via (Bloomberg).

As bad as returns were in the U.S., they were worse overseas. In dollar terms, markets in the U.K., Germany, France, Russia, Japan, South Korea and India all dropped more than the broadest based U.S. index, the Wilshire 5000. Of the major foreign bourses, only China fared better than the U.S. market, down -4.26% for the month. There was little to cheer about even in Shanghai, as that market has lost more than -60% in value since its October 2007 high.

September Returns (%)

| | Local Currency | U.S. Dollars |
|-----------------------------|----------------|--------------|
| FTSE 100 Index (UK) | -12.83 | -14.61 |
| DAX Index (Germany) | -9.21 | -12.78 |
| CAC 40 Index (France) | -9.88 | -13.42 |
| MICEX Index (Russia) | -23.82 | -26.82 |
| NIKKEI 225 (Japan) | -13.29 | -11.17 |
| Hang Seng Index (HK) | -14.74 | -14.31 |
| Kospi Index (So. Korea) | -1.78 | -10.35 |
| Shanghai SE Comp. (China) | -4.11 | -4.26 |
| BSE Sensex 30 Index (India) | -11.62 | -17.67 |

Sources: Bloomberg

September's dismal market performance has proven to be a mere warm-up act for the gut-wrenching global meltdown that has occurred during the first seven trading days in October.

Through Thursday, October 9, the S&P 500 Index is down -21.9% for the month to date, boosting year-to-date losses to -37.0% and the fall from last October's high to -40.6%. The carnage has sent investors scurrying for the safety and security of short-term U.S. Treasuries, whose yields have dropped to as little as a few basis points on a couple of occasions in the last few weeks.

So what happened? Why has investor confidence been so shaken? While we can't yet say definitively, we're inclined to agree with the view of GaveKal's Anatole Kaletsky and others that the serious trouble began on September 7, when Treasury Secretary Henry Paulson placed Freddie Mac and Fannie Mae into conservatorship despite the fact that each was then in full compliance with all existing regulatory capital requirements. By effectively throwing Freddie and Fannie common and preferred shareholders under the bus in the interest of "preserving the system," Paulson sent a message to the market that equity shareholders had been bad and needed to be punished. In Mr. Kaletsky's words: "After what Mr. Paulson did [to] investors who had poured \$20 billion into Fannie and Freddie preferred stocks since last November - with the strong support and encouragement of the U.S. Treasury itself - what conclusions would a rational investor draw about recapitalising U.S. financial institutions in the future? The answer is obvious: No rational investor anywhere in the world will dream of helping to recapitalise any U.S. financial institution that could conceivably run into trouble and require government support. In fact, it would seem extremely rash

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to put money even into seemingly healthy U.S. institutions, if these could be suddenly declared undercapitalised or insolvent by a change of [regulatory] or accounting requirements, which is basically what happened to Fannie and Freddie, after Congress passed the Housing and Economic Recovery Act in July."

The market uncertainty created by the Treasury's manhandling of the GSEs was exacerbated by its quasi-nationalization of AIG on extremely punitive terms to common and preferred shareholders. Next in the line of confidence-shaking events was the Lehman bankruptcy. Unlike J.P. Morgan Chase's takeover of Bear Stearns where debt-holders were protected, in the Lehman bankruptcy, debt-holders were left to fend for themselves. The subsequent massive losses experienced by Lehman debt-holders led to tumult for money-market funds and caused the Reserve Fund, the largest and one of the oldest U.S. money funds, to "break the buck," precipitating a mini-run on money-market funds generally. Once the safety of money-market funds came into question, anxiety levels among institutional investors and the general investing public soared. Demand for commercial paper and other forms of non-governmental short-term debt dried up as money fund operators shunned nearly everything but short-term U.S. Treasuries. The threat of a full-blown run on the \$3.5 trillion money-market business was, in our view, the precipitating event for the Treasury's \$700 billion bailout proposal.

As the world watched the legislative process surrounding the bailout plan, it became clear that there is more than a little truth to the old saw that there are two things you don't want to see made: sausage and legislation. In one end of the meat-grinder went a three-page memo from Secretary Paulson outlining the plan. Out the other end came a 451-page, pork-laden monstrosity dubbed the Troubled Asset Recovery Plan (TARP). While TARP is far from perfect, we thought at the time it passed that it was better than no bill at all. Given the market's extreme weakness since the legislation was enacted, we may need to revise our view. The basic flaw in the bill, in our opinion, is that it provides strong disincentives to participate and may not, therefore, be as effective as was intended. For example, sellers of so-called troubled assets to the government are required to grant the government some form of incremental compensation such as warrants, preferred stock or debt, even if the purchased assets are subsequently resold by the government at a profit. We think many prospective sellers may find this unappealing. The anti-equity spirit of the bill is likely, in our opinion, an important reason why the market has been so weak since its passage.

In real estate investing, experts say the three most important factors to consider are: location, location and location. In the stock market, we believe the three most important factors to consider today are: confidence, confidence and confidence. Once confidence is lost, as it has been lately, it is very difficult to restore. Prices drop with no regard for valuation until someone is willing to step in and buy. But unlike a half-off sale at Macy's, stock market buyers are not attracted to bargains. Instead of lining up around the block to buy, they run the other way. A year ago, investors were eagerly buying stocks with the Dow Industrials over 14,000. Today, investors are abandoning the market in droves with the Dow under 8600. It is ever thus and always will be. Most people are not wired properly to be successful investors. Hundreds of thousands of years of human history have wired their brains to seek pleasure and avoid pain. Since studies show that a loss of a given magnitude is twice as painful as a gain of similar size is pleasurable, it should be no surprise that lower prices are now producing urgent selling rather than eager buying.

As an illustration of how "unnatural" a rational investment process is for the average person to employ, another study by Antonio Damasio and others found that individuals whose brains had been damaged in such a way as to prevent them from experiencing emotions outperformed a group of individuals with "normal" brain function in an investment experiment. Both groups were given the opportunity to participate in a series of coin-flips where the payoff for winning exceeded the cost of losing. Since the expected value of each round was positive, the rational thing to do was play every time, which is exactly what the brain-damaged participants did. In contrast, the "normal" group let their experience in prior rounds affect their decision to play in subsequent rounds. If they won, they kept playing. If they lost a few times, they began sitting out rounds, even though the odds had been structured to be in their favour each round. At the end of the exercise, the brain-damaged group had accumulated more money than the normal group because they kept playing.

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Fund Review

The Legg Mason Value Fund underperformed the S&P 500 Index in the month of September, declining 11.20%¹ versus an 8.91% decline for the index. Year-to-date through September, the portfolio trails the S&P 500 by 1739 basis points, down 36.68% versus a loss of 19.29% for the index.

Value Fund Bottom Contributors September 2008²

| Bottom Contributors | % Weight | Return | Contribution |
|------------------------------------|----------|--------|--------------|
| American International Group, Inc. | 1.40 | -86.02 | -2.55 |
| The AES Corporation | 7.21 | -23.33 | -1.89 |
| Aetna Inc. | 6.15 | -16.26 | -1.10 |
| UnitedHealth Group Incorporated | 4.89 | -16.49 | -0.86 |
| Time Warner Inc. | 3.97 | -19.80 | -0.85 |
| Freddie Mac | 0.30 | -93.19 | -0.77 |
| Amazon.com, Inc. | 7.42 | -9.90 | -0.74 |
| Electronic Arts Inc. | 2.60 | -24.20 | -0.68 |
| Google Inc. | 3.56 | -13.16 | -0.52 |
| CA Inc. | 2.50 | -16.29 | -0.42 |

The massive deleveraging in the global financial markets accelerated in September. It seems that the only certainty is that the "financial tsunami" will leave in its wake a radically transformed financial industry landscape. As part of this transformation, on the 7th September, regulators put the two government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, into conservatorship. Given that the firms met all stated regulatory requirements, it seems that the government was acting largely on its desire to reduce systemic risk, to improve mortgage affordability, and to stabilise housing prices and the economy. In addition to massively diluting existing shareholders, the regulators' actions left unanswered many key questions crucial for assessing the GSEs' long-term risk-reward potential, prompting us to eliminate the portfolio's Freddie Mac position.

In hindsight, while we factored the risk of nationalisation into our analysis of Freddie Mac, we did not believe the government would preemptively seize control of a privately owned institution that had continued access to capital markets for funding and was in full compliance with all published rules, regulations, and capital requirements. While politically popular at the time, the nationalisation of the GSEs set off a panic across the financial industry and drove risk capital out of the system. The selling wave which claimed Lehman Brothers and Merrill Lynch within a week, hit AIG in mid-September when credit rating agencies downgraded the firm. The downgrades significantly accelerated AIG's liquidity demands at a time when the financial system was under extreme stress. In a tell-tale sign of the shaky market confidence, several large banks declined to provide a loan package to rescue AIG despite the urging of the Fed. It was clear that our investment case, based on the long-term fundamental value of AIG's global franchise, was unlikely to have a chance to play out and we exited the position before the Fed came forward with a costly "bailout" that diluted existing shareholders by almost 80%.

The fallout in the financial sector is casting a long shadow over the broader economy. The electric power industry became a victim when worries about counterparty risk and liquidity pummeled Constellation Energy, with the ripple effects hurting portfolio holding AES Corporation. Investors also fled AES due to the recent strength in the US dollar as investors recalled the company's 2001-2003 financial crisis which was exacerbated by a strong dollar combined with a mismatch between the company's significant foreign revenues and its predominantly dollar-denominated debt. However, AES is now much more conservatively financed, with three-quarters of its non-recourse debt denominated in the currency matching the projects' revenues. As a result, we believe that the currency concerns are overblown and continue to see attractive risk-adjusted returns from the now marked-down share price levels.

The double-digit declines in our managed care holdings, Aetna and UnitedHealth, likely reflected a confluence of several factors, including exposure to Lehman and AIG debt (which, in fact, account for just 1% of UnitedHealth's total investments and 2% of Aetna's), lingering concerns on the industry "underwriting cycle" (the latest Kaiser survey of employer-sponsored health plans suggested continued deceleration in premium growth), and heightened volatility as the November election approaches (neither candidate is particularly friendly to managed care, although we doubt significant policy changes are imminent whoever is in the White House next year). In the end, we believe that the relevant question for investors is "what is discounted?" With the managed care providers' shares offering double-digit free cash flow yields, we believe that the odds are in investors' favour.

¹ Class A Distr. (A) US Dollar Shares.

² This attribution represents our unconstrained portfolio. Exact weightings in some client portfolios may differ slightly from the model, and therefore, precise attribution may also differ slightly.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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The grim macroeconomic picture also took its toll on a number of other companies. Media giant Time Warner rescinded the guidance it provided in August for positive revenue growth for the second half, citing weak advertising revenue at its AOL unit. Indeed, while the hard-hit financial and real estate industries represent just 10% of total ad spending, they accounted for 23% of the growth in the past four years. Also contributing to the -20% share price decline might be investors' propensity to "sell the news" now that the catalysts – the impending divestiture of Time Warner Cable, the improvement in the capital allocation process, and a potential sale of AOL – are clearly in sight. While we would not be surprised by short-term volatility, we believe that the long-term value of the company remains compelling.

The warning from AOL echoed the cautious comments made earlier by Google's CEO Eric Schmidt that his company also faces a more challenging environment for ad sales. As a result, Google's shares declined -13% during September as investors shrugged at the company's continued market share gains in search advertising and the launch of its Android-powered smart phone that promises to extend Google's competitive advantage onto the mobile platform.

Amazon.com moderately underperformed the market in September, dropping nearly -10%. Among investors' concerns was the adverse impact of the rebound in the US dollar, given that nearly half of Amazon's revenues are sourced abroad. Rather than quibbling over the ebbs and flows in the foreign exchange markets, though, we believe long-term investors are better served by focusing on the company's widening competitive lead over its e-commerce peers from differentiating innovations such as its Amazon Prime unlimited delivery programme, the Kindle e-book reader, and its various offerings in the Web services market, all of which point to significant value creation in the long run.

In the technology sector, Electronic Arts suffered a loss of -24% despite a successful debut of its groundbreaking online game Spore, the company's reiteration of its three-year goal of reaching \$6 billion in revenues and \$1.5 billion in operating profits by fiscal year 2011, and industry data showing robust game revenue growth and market share gain for ERTS. The surprise withdrawal of ERTS's bid for rival Take-Two may have disappointed some investors, as the combination of the two leading game publishers would have led to significant synergies. While the company remains a "show-me" story, we are encouraged that management is focusing not only on fixing short-term operating problems but also on long-term strategic initiatives to build out a direct-to-consumer business, which should smooth the transition between console cycles.

Finally, software company CA Inc. fell -16% amid concerns of a global IT spending slowdown. Its shares, trading close to the annuity value of its current contract portfolio, present investors with limited downside and potentially sizable upside if the company can achieve any meaningful top-line growth or cost reduction.

| Top Contributors September 2008 | % Weight | Return | Contribution |
|-----------------------------------|----------|--------|--------------|
| JPMorgan Chase & Co. | 4.42 | 22.79 | 0.67 |
| Citigroup Inc. | 4.73 | 8.06 | 0.45 |
| Capital One Financial Corporation | 2.65 | 15.70 | 0.38 |

On the positive side of the ledger, the three major contributors to September's performance all hail from the Financial sector. We believe their strong returns, well in excess of the market and the sector indices, were driven by the resetting of expectations in light of company-specific progress amid policymakers' escalating efforts to improve market liquidity and reduce systemic risk.

JPMorgan Chase purchased Washington Mutual's deposits and branch assets for \$1.9 billion after Federal regulators seized America's largest thrift in late September. In addition to catapulting JPMorgan into position as the largest US depository institution and giving it immediate scale in California, Washington and Florida, the transaction is also expected to be accretive to earnings from year one. Despite the challenging industry environment and inherent uncertainty about WaMu's credit exposures, we believe that JPMorgan had conducted thorough due diligence prior to the deal, and that the low transaction price (about 1% of WaMu's deposits) should further limit the downside risk. JPMorgan also raised \$10 billion in equity to buttress its capital position. We note that this is the second major deal that JPMorgan scored this year at bargain-basement prices with the apparent blessing of regulators. The stock's 23% gain in the month reflected investors' optimism that with the company's strong capital position, Jamie Dimon and his team are now well positioned to play offence and eventually emerge triumphant in the coming wave of industry consolidation.

Citigroup tried to manoeuvre itself into a similar position when it launched a bid for its seriously weakened banking rival Wachovia. As of month-end, the two companies had reached an agreement whereby Citi would pay \$2.2 billion in common stock to acquire Wachovia's banking operations. In connection with the transaction, Citi would raise \$10 billion in common equity, issue \$12 billion in preferred and warrants to the Federal Deposit Insurance Corporation, and cut its dividend in half. Regulators are facilitating the deal by helping limit Citi's maximum credit loss exposure on acquired assets to \$42 billion. In early October, however, Wells Fargo launched a higher bid for Wachovia. If Citigroup's bid for Wachovia's banking operations ultimately proves successful, we expect the transaction to create long-term strategic value that was partly reflected in the 8% run-up in Citi's shares. As of this writing, the ultimate fate of Wachovia remains undecided. Nevertheless, the bidding war once again suggests that when the dust settles, those players with sustainable advantages and strong franchises should emerge as winners.

Finally, Capital One seized on a golden opportunity and bolstered its staying power when it announced a 14-million-share secondary offering with minimal dilution in the wake of the SEC's temporary ban on the short selling of financials. As a result of the offering, Capital One's capital ratio should reach 6.5% at the end of the third quarter, versus its second-quarter level of 6.1%, and well above the rating agency target of 5.5-6.0%. Investors rewarded management's opportunistic move by bidding up Capital One's shares by 16% during the month.

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Outlook

With the benefit of hindsight, we have obviously been wrong to be as constructive on the market as we have been. Since the middle of last year, it has paid handsomely to be cautious, sceptical and defensive. The correct posture has been to assume that the situation would continue to deteriorate, rather than look for reasons that it might improve. We are optimists by nature, a trait that has served us well over the long haul, but not recently. We thought the market might be turning in January and again in March, following the takeover of Bear Stearns. The May bottom also looked promising, and we really thought the July low would hold. It did not. We now find ourselves in early October with the Dow Industrials at 8579.19 and the S&P 500 at 909.92.

Having been prematurely bullish - and wrong - on the market, is it now proper to be bearish or to equivocate? We think not. As humbly as we can, we state that we believe investors are now being afforded one of the best buying opportunities of their lifetimes, comparable, in our view, to the opportunities presented at the bottoms of the bear markets of 1974 and 1982. If we are wrong about that, we will have yet another reason to apologise. Even if we're right - and we see a lot of indicators that suggest to us that we might be - few people will have the courage to take advantage of the opportunity. The market is in full panic mode. Selling is begetting more selling. Mutual funds are selling to meet redemptions. Hedge funds are selling to reduce leverage and meet redemptions of their own. When will the selling end? We don't know. What will end it? We're not sure. We know only that the market appears significantly undervalued to us now, that anxiety levels - as measured by the VIX, the TED Spread, credit spreads and the miniscule yields on short-term Treasuries - are through the roof and pessimism about the outlook for stocks and the economy is rampant.

While valuation doesn't seem to matter much right now, ultimately we believe it will. We continue to put the fair value multiple of the S&P 500 at 17.4 times earnings, based on a 6% long-term growth rate, a 10-year Treasury rate of 3.83% and an equity risk premium of 4.50%. The difficult task right now is trying to figure out what earnings will be. According to the latest figures from Standard and Poor's website, the current bottom-up consensus earnings estimates for the S&P 500 Index for 2008 and 2009 are \$77.60 and \$104.15, respectively, implying earnings multiples of 11.7 and 8.7, respectively, for 2008 and 2009. The 2008 estimate could be close, but the 2009 estimate looks way too high to us now. We believe it is highly likely that the U.S. economy has fallen into recession, with negative implications for corporate earnings. S&P's top-down estimates seem more reasonable to us, and perhaps even conservative. They show S&P 500 Index earnings being roughly flat in 2009 over 2008 at \$68.52, implying an earnings multiple of 13.3 on both this year's earnings and next. Another way of looking at it is to say that earnings would have to fall below \$52.25 in 2009 in order for the market to be overvalued on our work.

Veteran market strategist Steve Leuthold normalises earnings by using a five-year average to get around the difficulty of estimating earnings at economic turning points. His latest work indicates that as of October 3, 2008, the S&P 500 Index was trading at a normalised P/E of 14.8 times, implying normalised earnings as of that date of about \$74.25. Using that estimate and the S&P 500's October 9, 2008 closing low of 909.92, the S&P is currently trading at 12.3 times normalised earnings, versus a median value of 18.6 times, and an average value of 18.0 times earnings since 1957, according to Leuthold.

Leuthold, who is also currently bullish, notes in his latest View from the North Country (October 2008) that investors' longer-term returns are heavily influenced by the multiple of earnings they pay at time of purchase. Buying when stocks are in the bottom 30% of their range in terms of normalized P/E (as they are now) has produced 1- and 10-year annual compound total returns of 17.4% and 15.5%, respectively. Buying when stocks are in the top 30% of their range (as they were in the middle of last year) has produced 1- and 10-year annual compound total returns of 7.0% and 7.5%, respectively, not horrible, but well below average and nothing like the opportunity that presents itself today.

As we noted earlier, human beings are not naturally wired to be great investors. We believe the converse of this is also true. Great investors are wired differently than most human beings. One great investor - perhaps the greatest of our time - after sitting on a mountain of cash for several years, is now committing a sizeable chunk of that cash to the market. We're talking about Warren Buffett, who has invested nearly \$13 billion in three companies - Constellation Energy (\$4.7 billion), Goldman Sachs (\$5 billion) and General Electric (\$3 billion) - over the last few weeks. That's \$13 billion that we know about. Remembering Buffett's famous admonition to be "fearful when others are greedy, and greedy when others are fearful," we were fascinated to hear him say in a recent television interview that he has rarely seen investors more fearful than they are right now. We think it's safe to say that the \$13 billion of announced deals are not his only recent purchases. In our opinion, investors should follow Mr. Buffett's example.

As always, we thank you for your support and welcome your comments.

David E. Nelson, CFA
Chairman, Investment Policy Committee
Legg Mason Capital Management

Legg Mason Value Fund

Important Information

| | Rolling 12 Month Performance to End of Last Month | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -42.72% | 12.22% | 1.68% | 13.75% | 10.04% | -18.19% | 9.63% |
| Benchmark ² (USD) | -21.98% | 16.44% | 10.79% | 12.25% | 13.87% | 28.65% | 26.51% |

Performance Inception Date: 23/03/1998.

¹ Legg Mason Value Fund (Class A Distr. (A)).

² S&P 500 Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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Legg Mason Global Funds plc

Legg Mason Growth Fund

For the third quarter of 2008, the Legg Mason Growth Fund declined by 26.94%¹ in US dollar terms, while its benchmark, the Russell 1000 Index, lost 12.33% in US dollar terms.

“Both the panic and the boom are eminently psychological phenomena. This is not saying that the fundamental conditions do not warrant sharp declines in prices and at other times equally sharp advances. But the panic, properly so-called, represents a decline greater than is warranted by conditions, usually because of the excited state of the public mind. It is really astonishing what a hold the fear of a possible panic has on the minds of many investors.”

G.C. Seldon, *The Psychology of the Stock Market* (1912)

The US stock markets are amidst a severe financial panic caused by the credit problems in our financial sector. The panic is further exacerbated by forced liquidations at hedge funds, margin calls and redemptions. Because there is very little buying of US stocks presently, the absence of adequate liquidity to absorb the selling has caused stock prices to drop dramatically. This has been the most difficult time for our Fund and its shareholders. As a fellow shareholder (most of my family's equity investments are invested in the Growth Fund), I have financially shared with you our recent disappointing performance.

However, despite the difficulties we currently face in the stock market, I remain steadfast in my belief in the long-term opportunities for global growth, and as such, I observe a remarkable list of outstanding US and international companies selling at prices far removed from my conservative estimation of their value. It is precisely at these times when fear, panic, and relentless pessimism offer the greatest opportunity to invest in the stock market. During financial panics, it is often hard to see past tomorrow. But for those who believe the financial world is not coming to an end and who have both the emotional and financial wherewithal to remain investors over the next three years, my confidence is extremely high that this commitment will likely be rewarded with above-average returns.

The challenge to endure a financial panic and stock market sell-off is reconciling the imbalance between emotion and intellect. At times like these, emotions overwhelm the intellectual defence for staying the course. Each of you, I am sure, has experienced at least one, if not more than one, panic period in the stock market. Since 1995, for example, investors have experienced the Asian financial crisis and demise of the hedge fund Long-Term Capital Management (1998), the worst terrorist attack against the US (September 2001), the worst bear market since the Great Depression (2000-2002), and countless other bumps along the way that now, in hindsight, all seem manageable. Looking back at these extreme periods, we might now wonder what was all the fuss? The world continued to revolve, global economies continued to grow, and after a severe downturn, the stock markets recovered and reached new highs. This history review in no way is an attempt to trivialise what we are experiencing presently, and I assure you the emotional stress for investors during 1998, 2001, and 2000-2002 periods was every bit as debilitating as it appears now. The lesson I am attempting to share with you is as obvious as it is difficult to learn. Financial panics and bear markets occur periodically, and each one carries with it an emotional burden that at the time is often too much to bear. Some of you might have sold stocks during this period; some of you might have just held on to what you owned; a few of you even might have bought more shares at lower prices. Whatever your investment action was during these most distressed periods, we all have one thing in common. We entered the financial panic and the oversold stock market and lived through it, and each of us came out the other side and witnessed a recovering economy and a rising stock market.

The extreme condition of our financial markets has caused the US government and its agencies to undertake historic policy actions with deliberate speed and force. It is important to understand that in previous financial panics, once the collective action of the President, Congress, Treasury, Federal Reserve Board and the Securities and Exchange Commission became fully engaged in solving the financial panic, we soon moved past the apex of the crisis and entered into the recovery period. Today, we have every reason to believe the determination of the US government's collective action will help solve our current financial crisis.

Although the economic landscape today compares to the mortgage crisis, economic recession, and stock market sell-off in 1990-1991, the price action of the stock market reminds me more of the panic that followed the terrorist attacks on September 11. Then, as now, the sell-off in the stock market was breathtaking. But what happened over the next six months? The S&P 500 Index was up 11%, and the Russell 1000 Growth Index was up 12%. What happened during those six short months? When the stock market reopened the week of September 17, stocks became massively oversold, the economy that bottomed in the fourth quarter of that year began to recover, and stocks sensing better economics ahead (the market is a discounting mechanism) began to rally. But the more important question is: Why did the growth equity investment strategies that we adopted at the time at Legg Mason Capital Management, after dramatically underperforming the market in the third quarter of 2001, suddenly outperform the broader indices? What did we do specifically? Answer: We did not sell stocks and invest in cash. We did not sell growth companies to buy the more conservative defensive companies. We did, however, reposition the portfolio into some of the highest quality blue chip growth companies in the S&P 500 Index. Quality blue chip stocks had sold off dramatically

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Legg Mason Growth Fund

in September 2001, which then offered the best risk/reward opportunity in the stock market. By investing in these companies, we decreased the economic risk to the portfolio without forfeiting the upside opportunity that comes with buying stocks at discounts to fair value.

The portfolio strategy we employed in 2001 is exactly the same strategy I am now pursuing in the Legg Mason Growth Fund. We have not sold stocks to invest in cash. We have not sold growth names to buy a bucket of defensive stocks. Rather, I am repositioning the portfolio in high-quality blue chip growth companies that are now selling at very big discounts to our estimate of fair value. Of course, I cannot guarantee what our performance will be six months or 12 months from now. However, I believe our portfolio strategy best positions the Growth Fund to enjoy above-average investment returns over the next three years.

During the third quarter, we witnessed significant price declines in three broad areas: financials, global industrials, and technology. In the financial sector, we experienced the largest negative contribution to our performance from our investments in American International Group and Freddie Mac. The "financial tsunami" that rolled through our capital markets during the month of September has had a profound impact on how investors will think about financial companies in the future. On September 7, 2008, the Treasury Department placed Freddie Mac and Fannie Mae into conservatorship. To say we were surprised and shocked by this most unexpected government seizure of private property is an understatement. As Treasury Secretary Henry Paulson pointed out, both Freddie Mac and Fannie Mae and their executives, officers, and board members had done nothing illegal. Both companies were solvent and generating excess free cash flow. Both companies met all the stated regulatory requirements.

So why did the US government seize two private companies that had done nothing wrong? The answer, we were told, was the need for the government to act in such a way to reduce the systemic risk of the capital markets, improve mortgage affordability, and stabilise housing prices. Because many foreign central banks were not only large holders of government sponsored enterprise² (GSE) debt, but also were significant purchasers of the monthly auctions of GSE debt, the Treasury felt it needed to place the GSEs into government conservatorship to ensure foreign central banks would continue to own and purchase GSE debt.

So our ownership of Freddie Mac was taken over by the government to help ensure the betterment of the greater whole, yet we were not fairly compensated for this financial "eminent domain." Instead, our ownership in Freddie Mac was essentially diluted 80% by the government's benevolent deed.

Clearly, we are in unprecedented times. Never before have I witnessed the US government seize private property from a company and its shareholders when admittedly the company had done nothing wrong or illegal. We believe this move by our government set us on a course of unintended financial consequences. Instead of stabilising the financial system by placing Freddie and Fannie into conservatorship, the capital markets quickly became unglued. In less than 10 days, Lehman Brothers was bankrupt. Merrill Lynch was forced to arrange a quick marriage to Bank of America, and American International Group, the world's largest insurance company, was left with no willing investors, and as such was forced to take a loan from the US government, the penalty of which was an 80% dilution in shareholder ownership.

With \$110 billion in identifiable assets, we never thought AIG would have difficulty raising capital if need be. Warren Buffett, who appeared on the Charlie Rose Show (Wednesday, October 1, 2008), echoed the same belief. In discussing the capital markets issue in September, and specifically the outcome for AIG, Buffett confessed, "I did not think I would see the day when AIG would not be able to have its checks clear." Neither did we, Warren.

So what went so terribly wrong in the week after Freddie and Fannie were placed in conservatorship? According to our friends at GaveKal Limited, an economic research firm, "Hank Paulson sent a very clear and conscious message to shareholders of all other banks and financial institutions that might ever require any kind of government support: If you ever have to turn to the government, your shareholders will be completely wiped out."

At exactly the most critical time financial institutions needed equity capital to withstand the financial markets dislocation, equity capital was in fact running in the opposite direction, with investors unwilling to make any further investments for fear Secretary Paulson was one step away from taking over their company and massively diluting their ownership. This new financial regulatory method of helping financial service companies cost the Growth Fund 750 basis points of performance. We had thought by moving up the quality ladder in the financial services sector and owning Freddie Mac and AIG, we would be largely immune from the difficulties that often face smaller and less well-capitalised financial firms. It was a mistake and a very painful lesson that will not be forgotten. Today, make no mistake, there is regulatory risk to investing in financial companies.

The balance of our underperformance for the quarter was caused by the sell-off in the global industrials and technology sectors of our portfolio. Whereas Shaw Group and Foster Wheeler had been outstanding performers in 2007 and the first six months of this year, the entire 18-month period of outperformance was wiped clean in two short months. The market is now beginning to discount the high probability of a meaningful economic recession over the next few quarters. Any company or industry that is dependent on economic growth to propel revenues and earnings is now viewed suspiciously, and consequently has found their share price sharply lower. This also includes the pristine blue chip names Nokia and Google. These two outstanding global franchises selling at very low multiples-to-earnings with no debt also saw their share prices sell off dramatically.

² Government sponsored enterprise: Privately held corporations with public purposes created by the US Congress to reduce the cost of capital for certain borrowing sectors of the economy. Members of these sectors include students, farmers and homeowners.

Legg Mason Growth Fund

Despite the difficulties we currently face in the stock market, I remain steadfast in my belief the US economy will emerge from this crisis onto a path of sustainable growth. Furthermore, we also observe the global economy with its newest emerging entrants will continue to prosper in the years ahead and as such will offer companies substantial opportunities to expand their products and services and as a result generate higher revenues and profits.

Our long-term value approach to investing emphasises the analysis of a company's earnings power. We then compare the value of the company's earnings power to its current stock price to judge whether we may have a profitable investment. At times, the list of companies whose stock prices are selling well below intrinsic value is rather short. This often occurs at stock market tops after years of annual appreciation. At other times, the number of companies selling at prices well below intrinsic value is surprisingly large. These unique periods are very rare, often once in a generation, and occur after severe financial panics and depressing bear markets. At Legg Mason Capital Management, we believe this temporary period of economic dislocation and its consequence – an extreme low level of stock prices – represents an extraordinary period for investors who now have the opportunity to generate above-average returns over the next several years.

As mentioned earlier, the challenge in financial panics and stock market sell-offs is reconciling the imbalance between emotion and intellect. The emotional signals tell investors to sell stocks and put all the proceeds in cash. The intellectual signal, too often drowned beneath the siren noise of fear and panic, would tell individuals to observe the now low level of stock prices and tabulate the significant returns available to those willing to invest now and realise the profits over the next three to five years.

Warren Buffett, who rarely has difficulty balancing emotion and intellect, sent a very important signal to investors on Friday, October 17. In an op-ed article printed in The New York Times titled "Buy American. I Am," Buffett points out that "now is a smart time to invest in US equities." Yes, the financial and economic world is a mess both here and overseas, admits Buffett, and he confesses that the US economy is likely to turn down from here with unemployment rising. Even so, in Buffett's personal account, which was previously 100% invested in government bonds, he will soon be 100% invested in US equities as long as stock prices continue to look as attractive as they do now.

So why has Buffett now decided to sell his safe and predictable but low-returning government bonds to invest in the highly volatile, and over the short run, highly unpredictable stock market? His simple rule – "Be fearful when others are greedy, and be greedy when others are fearful" – is his guidepost. This straightforward contrarian philosophy has served value investors well over the years, but there is much more to this gospel than taking the other side of the trade. One of my favorite Buffett witticisms is "polling does not replace thinking."

Despite the simple nature of Warren Buffett that appears to accompany his many investments, I assure you there is a much deeper level of analysis when it comes to allocating his capital. Most recently when asked why Berkshire Hathaway invested in General Electric and Goldman Sachs, he responded that they were both great businesses run by great managers available at great prices – the typical Buffett checklist for common stock purchases. But he also confessed that had he not had confidence in the government's collective action to solve the current financial crisis, he would more likely be selling stocks than buying stocks. So here is Warren Buffett, not only buying stocks for Berkshire Hathaway, but buying stocks in his personal account as well. Emotion is put aside. Intellectually, Buffett knows the next move.

"Today, people who hold cash equivalents feel comfortable. They shouldn't," says Buffett. "They have opted for a terrible long-term asset, one that pays virtually nothing." However, explains Buffett, "equities will almost certainly outperform cash over the next decade, probably by a substantial degree."

At Legg Mason Capital Management, the Buffett DNA runs both deep and wide. Like Buffett, we think about stocks as businesses and go about buying businesses only when share prices are demonstrably below intrinsic value. We both run concentrated stock portfolios, and we both are long-term investors. Buffett's 10-year timeline for stocks outperforming cash may be much longer than most investors are willing to wait, but we are willing to bet investors will not have to wait so long before stocks begin to outperform cash. Certainly, we have no idea in the short run what direction the stock market will take. However, we have observed and analysed stock markets throughout history, and we note that stock prices begin to appreciate long before the economic news turns rosy. Indeed, the stock market is a discounting machine. As such, we are highly confident a diversified portfolio of high quality common stocks will significantly outperform bonds and money markets over the next three to five years.

In our 26-year history as a firm, Legg Mason Capital Management has confronted and endured financial panics, market crashes, a few bear markets and recessions, inflation and deflation, and terrorist attacks and regional wars. Throughout our history we have remained steadfast in our belief that the US economic system and its capital markets would persevere despite the frightening challenges it has faced. Nothing today has changed our viewpoint.

We remain committed to our investment philosophy and process. We remain committed to our clients and shareholders. We remain committed to providing above-average investment returns in the years to come.

As always we appreciate your support and confidence. If you have any questions please do not hesitate to contact us.

Robert Hagstrom, CFA
Portfolio Manager, Legg Mason Growth Fund
Legg Mason Capital Management Inc.

Legg Mason Growth Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -44.42% | 31.42% | -3.71% | 12.53% | NA | NA | -25.13% |
| Benchmark ² (USD) | -20.88% | 16.44% | 10.79% | 12.25% | NA | NA | 12.80% |

Performance Inception Date: 25/02/2004.

¹ Legg Mason Growth Fund (Class A Distr. (A))

² Russell 1000 Growth Index. (S&P 500 Index prior to 01/10/2007).

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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November 2008

Ref: 4078

Western Asset Q3 2008 US Fixed Income Strategies

Key Points

- The investment manager's US strategies largely generated negative absolute returns and lagged their benchmarks over the third quarter.
- Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. Non-government bonds remained under severe pressure, with spreads on corporate bonds soaring to new highs.
- Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium- to long-term. The manager continues to see value in non-government bonds, particularly in mortgage-backed securities and lower-quality corporates.

Market Review

Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. The government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised to provide stability to the mortgage market. In the banks sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was to be taken over by Citigroup (which was later successfully challenged by Wells Fargo) and JP Morgan Chase absorbed Washington Mutual. In addition, the investment banking model was finally put to rest as Wall Street's remaining investment banks – Morgan Stanley and Goldman Sachs – applied for banking licences and came under the Federal Reserve's supervision. The Federal Reserve (Fed) also announced a bail out of insurer American International Group (AIG).

As the financial sector remained under severe pressure, the US government and the Fed announced an additional support package, which included a \$50 billion provision to insure money-market mutual fund holdings, expanded lending facilities for commercial banks and put in place curbs on short selling of financial stocks. In its most dramatic move to date, the US Congress announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The Fed joined a number of other major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, the Fed and a number of other central banks announced co-ordinated action to cut interest rates by 50 basis points).

Non-government bonds remained under severe pressure, with spreads on investment grade and high yield corporate bonds soaring to new highs. Mortgage-backed securities issued by agencies, meanwhile, outperformed Treasuries over the month, benefiting from the government backing of the GSEs. Non-agency issues remained highly illiquid.

Strategy*

Against this backdrop, the investment manager's US strategies largely generated negative absolute returns and lagged their benchmarks over the third quarter.

The manager's positions in non-government bonds had a negative impact on performance, as spreads soared in the wake of heightened fear and a breakdown of trust in the financial system. The manager maintained its overweight exposure to investment grade corporate bonds, with an emphasis on financial and lower quality issues, and held a moderate exposure to high yield corporate bonds, emphasising BB-rated bonds. The manager's overweighting to the mortgage-backed sector also had a negative impact on performance for the period as a whole, although securities issued by agencies staged a recovery late in the period. Elsewhere, exposure to emerging market debt detracted from performance as spreads widened and emerging market currencies weakened.

The manager's positions in US and non-dollar government bonds provided some offset, benefiting from investors' flight-to-quality and expectations for lower interest rates. However, its moderate exposure to Treasury inflation-protected securities (TIPS) as a hedge against rising inflation concerns suffered, as the asset class underperformed conventional government bonds on the back of falling oil prices and a reduced demand for inflation protection.

Outlook

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. For the moment, however, bond markets remain driven by financial market tensions rather than indications from economic data. Whether or not a recession will occur is of secondary significance against this backdrop. Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium- to long-term. Assuming that governments' and central banks' policy response succeeds in

*Please note not all strategies have allocations to the sub-sectors covered in this commentary. Please see relevant fund factsheet for individual allocations. Western Asset Management took over responsibility for the funds on the 03 July 2006.

Western Asset Q3 2008 US Fixed Income Strategies

restoring the functioning of financial markets, trust in the financial system will eventually recover. At that point, the significant discounts at which the non-government sectors are currently trading should moderate and pricing should once again reflect fundamentals, such as the underlying probability of defaults.

The manager continues to see value in non-government bonds, particularly in mortgage-backed securities (MBS) and lower-quality corporates. The manager will continue to focus on agency MBS, as these offer attractive value given the commitment of the US government to support the GSEs. However, it also maintains a selective exposure to non-agency issues. Within corporate bonds, the manager favours financials at current spread levels. In high yield, the manager will continue to select issuers that it feels can weather a slowdown in economic growth and have business models supportive of generating coupon payments.

In emerging markets, the manager continues to see value in local currency-denominated sovereign bonds and foreign-currency denominated corporate issues, given their higher yields and robust fundamentals.

These strategies are managed by Western Asset Management

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The strategies are representative of those employed by the U.S. Fixed Income sub-funds within Legg Mason Global Funds plc (listed below).

Western Asset U.S. Core Bond Fund

Western Asset U.S. Core Plus Bond Fund (Prior to 21 April 2008 the Western Asset U.S. Core Plus Bond Fund was known as the Western Asset Investment Grade Total Return Bond Fund.)

Western Asset U.S. High Yield Bond Fund

Western Asset U.S. Short-Term Government Bond Fund

Western Asset U.S. Adjustable Rate Income Fund

Western Asset Inflation Management Fund

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October 2008

Ref: 3917

Brandywine Global Opportunities Bond Fund

Key Points

- The Brandywine Global Opportunities Bond Fund returned -5.46%¹ in US dollar terms over the third quarter, underperforming its benchmark, the Citigroup World Government Bond Index, which returned -2.97%. Its sector, the Morningstar Fixed Income Global USD Based, returned -4.39%.
- The portfolio's overweight positions in commodity currencies, such as the Australian dollar, New Zealand dollar and Brazilian real, and its exposure to US investment-grade corporate bonds and mortgage-backed securities had a negative impact on performance.
- Given the magnitude of the credit crisis and lack of liquidity, the manager expects global growth to slow significantly. Although late, action has now been taken and at some point the various co-ordinated global efforts should restore confidence and improve liquidity. The manager believes restored liquidity will be necessary to get investors to move back into higher yielding bonds and currencies.

Leverage Has Had Its day

Leverage has had its day. Never again will we see money borrowed as easily, or lost as efficiently. Every day we learn something new about how we arrived at the precipice we presently sit upon. There are many trying to pin the blame, and there is much to go around. This debt cycle began long ago, but the most damaging phase began in 1998 when the US Congress mandated "affordable" loans to those who would otherwise not get full access to credit, making mortgage debt more "democratic". We'll leave the recounting of the full saga to the financial historians, and it will fill bookshelves. However, it is worth pointing out that this crisis, and the degree of risk entailed, has been made much worse by at least three significant developments.

Three Developments Of Ill-Fated Consequence

The first was this year's rise in oil prices from \$100 to almost \$150 in a matter of weeks. We thought that the rescue of Bear Stearns at the end of the first quarter might have been a crucial turning point in the crisis. Instead, the rise in oil prices eroded consumer spending power around the world and knocked the legs out from under the global economy. Deterioration in the global economy fed back into more financial stress.

The second factor has been the intransigence of the European Central Bank (ECB). Obsessed with headline inflation that has been artificially boosted by rising oil prices, the ECB raised rates as recently as July notwithstanding an already inverted yield curve, the weakest growth in narrow money in 25 years, the extreme overvaluation of the euro, and an economy and financial system in obvious distress. We think this was a policy mistake of historic proportions, helping to tip the balance in a fragile world.

Finally, the severity of the crisis has been intensified by the case-by-case approach of US policymakers combined with crucial errors in judgment. The financial system needs fresh capital. Instead, the Treasury took it away with the stroke of a pen when it bailed out Freddie Mac and Fannie Mae but gave nothing to all the banks relying on preferred stock in these institutions as part of their Tier 1 capital base. Moreover, the decision to let Lehman fail brought with it a chain reaction of dire consequences that were wholly unanticipated by the Federal Reserve (Fed) and Treasury, leading to a seizure in confidence among market participants.

The US policy approach has reflected an implicit if not explicit attempt by the authorities to punish institutions for their bad decisions. This experience is a warning that the current administration has been playing with fire in its efforts to avoid moral hazard and to appease public pressure. The experience of the Great Depression and Japan's lost decade of the 1990s shows that banks need to write down their financial losses as quickly as possible and then recapitalize just as fast. What the authorities have failed to realise until only two weeks ago is that the only player with enough capital to replenish the banking system quickly is the US government.

In our view, these three factors have helped turn what should have been a manageable crisis in sub-prime into a freeze-up in credit, intense risk aversion and a more severe downturn in global growth.

Portfolio Positioning

Our negative views on Europe played out in the third quarter with a 10.6% decline in the euro, vindicating our significant underweight in this currency and overweight in the dollar. The yen was flat versus the dollar, but we were hurt by weakness in several growth-oriented currencies,

¹ Class A Distr. (S) US Dollar Shares.

Source for performance figures – Legg Mason, NAV to NAV, with gross income reinvested without initial charges but reflecting annual management fees. Source for sector median performance – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Brandywine Global Opportunities Bond Fund

although the negative impact was partly offset by capital appreciation in bonds as interest rates declined. In addition, widening spreads in the mortgage market in July and August, and then in corporates as the credit crunch hit high gear in September, detracted from performance.

During the quarter, we complemented our minimal exposure to the euro by eliminating exposure to Norway and reducing exposure in Poland and Sweden. We have held firm to our belief that the overvaluation of the euro would produce stress in the economies of the EMU region as the global economy slowed. The ECB has made sure this would happen by raising rates in July to fight inflation pressures, which we believed would soon be tipping in the other direction. Oil, commodity and food prices were the source of the inflation pressure, and as we now all know, boom has become bust. We have also all become aware that the European banking system is showing itself to be just as vulnerable to the credit crunch as that of the US. In fact, more losses have been recognised by European banks than their US counterparts.

While the US has been the epicentre of this crisis, we believed the US dollar had fully discounted the risks and could embark upon a meaningful rise. Our dollar holding rose significantly during the quarter. Hedging almost anything into the US dollar would have been additive. The problem for the portfolio was that our holdings in credit went from historically high spreads to unprecedented high spreads. Value has become extraordinary.

The good news is that the bad news is so intense and widespread that global policy makers finally understand the need for comprehensive, remedial treatment of the crisis, at a time when extreme risk aversion has produced extraordinary value in a wide range of risk assets. Oil prices have collapsed, helping to boost global real incomes and consumer spending power. There is now an intensely urgent and global level of coordinated policy action aimed at stabilising banks and recapitalising the financial system. Even the ECB is on board. Most importantly, the US is pursuing a systemic policy of rehabilitation for the financial system.

These policies are a dramatic change from the state of affairs that existed only a few weeks ago. We expect that they will ultimately work to ease the credit crunch and will pave the way for renewed interest in risk assets, hopefully during the current quarter, which should lead to improved performance in the portfolio. It will take longer for the global economy to stabilise, suggesting 2009 could present a number of significant cyclical challenges and opportunities on the way to laying the base for a more sustainable turnaround.

Market Review

Bond markets experienced strong inflows in the third quarter as the financial markets warmed to the idea that the pronounced slowdown in the US economy would seep into the rest of the world and cause a global economic slowdown. It concluded that inflation pressures which dominated much of central bank thinking for the first two quarters were to be fleeting, creating expectations of pending change in monetary policy. Massive liquidations in the commodity markets also contributed to an easing of inflation pressures during the quarter. The credit crisis continued to be front and centre of the bond markets. The crisis supported flows into sovereign issues at the expense of spread products. All the major bond markets had positive absolute returns in their local currencies, led by Australia, whose economic reversal during the quarter forced the RBA to cut rates. In the EMU, Bunds had the strongest returns due to "flight to quality" flows at the expense of debt of countries with perceived higher credit risks. Canadian government bonds edged out Japanese government bonds to be the worst performing sovereign debt market during the quarter.

Risk re-entered the currency markets during the third quarter but took on a different form than witnessed during the first quarter (the other risk aversion oriented quarter this year). This time, the US dollar joined the yen as primary beneficiaries. The yen did well versus all currencies as yield was punished during the quarter, a clear sign of risk aversion. This was evident by the sharp selling pressure in the Australian dollar/Japanese yen cross as well as the euro/yen cross. Under a massive unwinding of the crosses, the yen versus the dollar basically went sideways during the quarter. Underlying all of this currency activity was the "recoupling" of the rest of the major economies to the US. The FX markets quickly came to the conclusion that a slowing of the world's largest economy would not go unnoticed by the rest of the world. This despite China's increased influence on the global economy. This made the US dollar look very attractive on a relative basis. After all, the Fed had been cutting rates since Q3 2007 and now it appears that the other major central banks will be catching up by sharply reducing their official rates.

Fund Review

The Brandywine Global Opportunities Bond Fund returned -5.46%¹ in US dollar terms over the third quarter, underperforming its benchmark, the Citigroup World Government Bond Index, which returned -2.97%. Its sector, the Morningstar Fixed Income Global USD Based, returned -4.39%.

The portfolio's overweight positions in commodity currencies, such as the Australian dollar, New Zealand dollar and Brazilian real detracted from performance, as the slowdown in global economic growth led to a sharp fall in commodity prices. The Fund's exposure to US

¹ Class A Distr. (S) US Dollar Shares.

Source for performance figures – Legg Mason, NAV to NAV, with gross income reinvested without initial charges but reflecting annual management fees. Source for sector median performance – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Brandywine Global Opportunities Bond Fund

investment-grade corporate bonds and mortgage-backed securities also had a negative impact on performance, as spreads widened sharply on the back of economic weakness, a worsening of the credit crisis and overall risk aversion.

Meanwhile, the portfolio's underweight position in the euro provided some offset, as the currency fell sharply over the period in response to deteriorating economic fundamentals and a worsening of the credit crisis among European banks. The Fund's overweight position in Australian bonds also added value, as the bond market rallied sharply.

Outlook

In our second quarter strategy discussion, we identified three possible scenarios for the US and global economy: stability, risk tolerance and risk aversion. We believed that relative stability or risk tolerance and slower global growth were the most likely scenario to unfold for the remainder of the year and had positioned our portfolios for such an environment. We envisioned much of the portfolio's performance would come from the higher yields embedded within our spread products. We were satisfied the Fed had finally eased rates sufficiently; and along with the stimulus package the effects would eventually cycle into the real economy. Instead what unfolded was risk aversion of historical proportions. The failure of Lehman Brothers in September sent the global economy spiralling into another level of the ongoing credit crisis.

In spite of the turmoil, some key fundamentals are unchanged. The US dollar should outperform the euro and yen and remain strong relative to the UK Pound. Since the US led the global economy into a recession, it should lead on the way out. The Fed was ahead of other central banks in the easing cycle. The effects of lower rates and the various stimulus packages will eventually feed into the real economy. Admittedly, the situation is complicated by stubbornly elevated non-government controlled rates, such as Libor, but we believe the recent globally co-ordinated efforts will make a difference.

Most central banks delayed stimulative monetary policy changes in reaction to higher oil prices. The ECB was so focused on inflation, it raised rates early in the third quarter. The euro has since weakened materially, down 3.96% relative to the dollar for the quarter and down 11.91% versus the yen. There is stress within Europe, if the 90 bps spread between Italian and German bonds is any indication. The current crisis will test the long-term viability of the euro as a currency.

The yen was supported by technical strength during the quarter due to the flight to quality and risk aversion. It was the only major currency to outperform the U.S dollar, up 2.54% for the quarter. As a consequence of a weaker euro, euro/yen crosses were quickly unwound. The pace picked up in September as the panic spread to crosses with the commodity currencies. We suspect that the full impact of the credit crisis on the Japanese banking system is yet to be disclosed. On the surface, it appears Japanese banks have been relatively immune from the global crisis, but given the sheer volume of savings within the Japanese economy, that is highly unlikely. We have to wonder what tools Japan would have at its disposal to counteract such problems.

Given the magnitude of the credit crisis and lack of liquidity, we expect global growth to slow significantly. Although late, action has now been taken and at some point the various co-ordinated global efforts should restore confidence and improve liquidity. Restored liquidity will be necessary to get the real economy back on a solid footing and in turn to get the investment community moving back into higher yielding bonds and currencies.

This Fund is managed by Brandywine Global Investment Management

Brandywine Global Opportunities Bond Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -1.41% | 7.07% | 2.02% | 4.27% | 8.54% | 21.88% | 21.88% |
| Benchmark ² (USD) | 5.90% | 8.69% | 2.23% | 3.02% | 7.00% | 29.72% | 29.72% |

Performance Inception Date: 30/09/2003.

¹ Brandywine Global Opportunities Bond Fund (Class A Distr. (S))

² Citigroup World Government Bond Index.

Source for performance figures – Legg Mason, NAV to NAV, with gross income reinvested without initial charges but reflecting annual management fees. Source for sector median performance – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

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September 2008

Ref: 3923

Western Asset Global High Yield Bond Fund

Key Points

- The Western Asset Global High Yield Bond Fund posted a return of -10.42%¹ in US dollars over the third quarter, underperforming its composite benchmark of the Citigroup High Yield Market Index (80%) and the JP Morgan EMBI Global (20%), which returned -8.34% over the same period.
- Global high yield bonds came under severe pressure over the period, with the US market recording its worst quarterly performance on record. Spreads widened to levels not seen since the scandals surrounding Enron and Worldcom earlier in the decade.
- Looking ahead, the manager continues to have a more favourable outlook on high yield bonds than reflected by the market and believes that the asset class offers significant investment opportunities.

Market Review

After outperforming all the other major fixed income asset classes and most equity markets over the second quarter, global high yield bonds came under severe pressure over the third quarter, with the US market recording its worst quarterly performance on record. US high yield bonds underperformed government bonds by 1084 basis points over the period and spreads widened to levels not seen since the scandals surrounding Enron and Worldcom earlier in the decade. (Spreads widened further to record highs in early October).

Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. The government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised to provide stability to the mortgage market. In the banks sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was to be taken over by Citigroup (which was later successfully challenged by Wells Fargo) and JP Morgan Chase absorbed Washington Mutual. In addition, investment banks Morgan Stanley and Goldman Sachs converted to bank holding companies. The Federal Reserve (Fed) also announced a bail out of insurer American International Group (AIG).

Despite a variety of measures implemented by central banks and governments around the globe, credit markets ended the period at a virtual standstill. Policy efforts by the US government and the Fed included a \$50 billion provision to insure money-market mutual fund holdings, expanded lending facilities for commercial banks and put in place curbs on short selling of financial stocks. In its most dramatic move to date, the US Congress announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The Fed joined a number of other major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, the Fed and a number of other central banks announced co-ordinated action to cut interest rates by 50 basis points).

Within high yield bonds, higher-rated bonds outperformed lower-rated issues. Although default rates in the high yield sector continued to rise over the third quarter, they remain below the 25-year historical average.

Strategy

The Western Asset Global High Yield Bond Fund posted a return of -10.42%¹ in US dollars over the third quarter, underperforming its composite benchmark, which returned -8.34% over the same period. The composite benchmark comprises the Citigroup High Yield Market Index (80%) and the JP Morgan EMBI Global (20%). However, the Fund outperformed its sector, the Morningstar Offshore Fixed Income Global High Yield, which returned -11.17%².

The underperformance over the quarter was largely driven by the manager's allocations within high yield, with exposure to select financials detracting most value, although allocations to industrials and utilities also performed poorly. Within the portfolio's emerging market debt exposure, US dollar-denominated holdings added to performance overall, while local currency debt had a negative impact. Elsewhere, duration and yield curve positioning also detracted from performance.

¹ Class A Distr. (D) US Dollar Shares.

² Source for sector median performance – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Western Asset Global High Yield Bond Fund

Outlook

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. For the moment, however, bond markets remain driven by financial market tensions rather than indications from economic data. Whether or not a recession will occur is of secondary significance against this backdrop. Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium- to long-term. Assuming that governments' and central banks' policy response succeeds in restoring the functioning of financial markets, trust in the financial system will eventually recover. At that point, the significant discounts at which the non-government sectors, including high yield bonds, are currently trading should moderate and pricing should once again reflect fundamentals, such as the underlying probability of defaults.

At current spread levels, the market is pricing in an elevated level of default rates to a record high over the next five years which the manager thinks is unlikely to be reached and sustained over that period. The manager favours lower-rated high yield issues as it believes valuations have reached extreme levels and that these bonds are likely to benefit most when the market returns its focus to fundamentals rather than liquidity issues.

In emerging markets, the manager continues to see value in local currency-denominated sovereign bonds and foreign-currency denominated corporate issues, rather than in foreign-currency-denominated sovereign issues. In local markets, the manager continues to focus on those countries with high real interest rates and likely currency appreciation.

This Fund is managed by Western Asset Management

Western Asset Global High Yield Bond Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -12.87% | 6.22% | 5.81% | 6.99% | 11.44% | 16.76% | 66.75% |
| Benchmark ² (USD) | -9.91% | 7.64% | 7.65% | 7.97% | 12.40% | 26.69% | 67.03% |

Performance Inception Date: 30/09/1999. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons Global High Yield Bond Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.*

¹ Western Asset Global High Yield Bond Fund (Class A Distr. (D))

² 80% Citigroup High Yield Market Index; 20% JP Morgan EMBI Global.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

* The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Distribution Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.55% in comparison to the predecessor fund of 1.37% – there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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October 2008

Ref: 3924

Batterymarch European Equity Fund

Market Review

Against a backdrop of extreme global turbulence, European equity markets recorded further declines during the third quarter. Particularly sharp falls occurred in September on the back of further risk aversion fuelled by frozen credit markets, bank bailouts, and stalled economic growth across the region. In response, governments and central banks initiated unprecedented support measures for banks and the wider financial system.

At the start of the period, despite evidence of slowing growth and deteriorating consumer and business sentiment, the European Central Bank (ECB) raised interest rates in early July. The move was in response to peaks in commodity prices and worries over their impact on inflation. Later in the quarter, global commodity prices corrected sharply and as tackling the acute problems in credit markets and the financial sector became a priority, the rhetoric from the ECB turned more neutral. The Bank of England (BoE), meanwhile, kept rates on hold throughout the period as it perceived that the risks of higher inflation and slower growth were finely balanced. Towards the end of the period, however, markets began to anticipate that the BoE would cut interest rates in response to the deteriorating growth outlook and the financial market crisis. (In joint action, the ECB, BoE and US Federal Reserve Board each lowered interest rates by 0.5% in early October).

In Europe's equity markets, basic materials stocks were among the worst performing groups over the third quarter, depressed by a sharp correction in commodity prices as the market priced in slowing global growth. Oil & gas stocks likewise declined, impacted by falling oil prices. The financial sector initially gained over the early part of the quarter, only to fall sharply in the final weeks as governmental bailouts for several individual financial institutions looked increasingly likely. Those that received supportive measures included Bradford & Bingley in the UK, as well as Fortis and Dexia in Continental Europe. Elsewhere, some sectors perceived to be more defensive in times of economic downturns held up relatively well or advanced over the period, including healthcare and consumer staples stocks.

Fund Review

The Batterymarch European Equity Fund fell by 13.55%¹ in euro terms during the third quarter, while its benchmark, the MSCI Europe Net Dividends Index, declined by 11.13% in euro terms.

The Fund's stock selection was the principal cause of this relative underperformance, as its overall sector asset allocation had a small positive impact on its relative returns. Stock selection was most detrimental in the materials and industrials sectors, as well as the Continental European consumer discretionary and consumer staples groups. The Fund's overweight holding in steelmaker ArcelorMittal underperformed the benchmark in the third quarter, for example, as did the Fund's other holdings in steel companies. This was a reversal of the situation in the second quarter, when steel stocks outperformed strongly. Shares in ArcelorMittal, the largest steel maker in the world, were impacted by factors such as slower global economic growth and the resultant downward pressure on steel prices.

Elsewhere, the Fund's selections in the telecommunication services, information technology, and utilities sectors were beneficial to its relative performance. Among individual stock holdings, the Fund's overweight positions in France Telecom and Spanish telecom group Telefonica were beneficial. Both companies are among Europe's largest telephone operators, and both indicated in the final month of the quarter that they expect to benefit from international expansion plans.

Turning to the Fund's asset allocation, an overweight exposure to the healthcare sector, which investors typically view as having strong defensive qualities in economic downturns, was beneficial to its relative performance. Within the sector, the Fund's holdings in the big German healthcare companies Bayer and Fresenius were among positive contributors. An underweight exposure to the consumer discretionary sector was among the negative influences within the Fund's asset allocation, however.

Outlook

The Fund's investment manager notes that the recent bank bailouts have raised fears that the effects of the US credit crisis are far from over. In addition, some policymakers and executives believe that if the ECB focuses on inflation rather than growth it will result in a deeper recession in the eurozone than in the US, with a slower recovery. Despite the difficult backdrop, the manager believes that value can still be found selectively in Europe's equity markets, and as a disciplined, long-term investor it continues to seek attractive stocks whatever the environment.

This Fund is managed by Batterymarch Financial Management

¹ Class A Distr. (A) Euro Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Batterymarch European Equity Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (EUR) | -31.76% | 11.85% | 12.07% | 30.96% | 20.25% | 34.71% | 20.91% |
| Benchmark ² (EUR) | -30.07% | 13.58% | 16.40% | 28.16% | 17.69% | 39.46% | 30.17% |

Performance Inception Date: 30/08/2002. Batterymarch Financial Management took over responsibility for the fund on the 01 January 2004.

¹ Batterymarch European Equity Fund (Class A Distr. (A))

² MSCI Europe Net Dividends Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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October 2008

Ref: 3940

ClearBridge U.S. Fundamental Value Fund

Market Review

The S&P 500 Index fell by 8.37% over the quarter as it experienced extreme volatility due to the credit crisis, which dominated markets throughout the period. Indeed, the S&P 500 fell over 8% on 29 September, when the US Congress rejected the first draft of a proposed rescue package. However, it recovered slightly on the final day of the quarter as the US authorities renewed their commitment to passing the measures. Approval was finally gained in early October.

Fund Review

The ClearBridge U.S. Fundamental Value Fund fell by 8.61%¹ in US dollar terms during the third quarter, compared to its benchmark, the Russell 3000 Index, which recorded a dollar decline of 8.73%. Stock selection in materials and financials helped relative performance while stock selection in health care and energy detracted. The financial and consumer staples sectors made the largest contribution to the Fund's absolute performance over the quarter, while exposure to the energy and IT sectors were negative in absolute terms.

Individual stocks that boosted absolute Fund returns over the period included JPMorgan Chase, Chubb, Weyerhaeuser, Kraft Foods and Abbott Laboratories. The largest detractors from performance included Halliburton, Anadarko Petroleum, Wyeth, Vodafone (ADS) and Texas Instruments.

Outlook

The manager notes that economic weakness and deflationary forces abound in the near term. However, much of the policy responses being contemplated by US authorities are inflationary over the long term. In addition, monetary policy will be less effective over the longer term, because lower interest rates may be offset by record increases in lending standards at financial institutions. Relative to the Russell 3000 Index, at the end of the third quarter the Fund's largest overweight positions were in the information technology and industrials sectors. The Fund's largest relative underweight positions at the end of the period were in the utilities, consumer staples, and energy sectors.

The manager believes markets are nearing an important low. Although economic news may remain poor, the stock market is a discounting mechanism, and current share prices already seem to reflect rather dire circumstances. The correction in energy and basic materials prices has been exceedingly swift and deep, accentuated by the activity of hedge funds unwinding long positions in rapidly declining energy/materials positions. For much of the last year, one of the most popular trades for hedge funds has been long energy/materials and short financials. This trade worked beautifully until about July 15th and since then it has reversed with a vengeance. The manager believes a number of energy and basic materials companies offer attractive valuations. The manager also favours larger capitalized companies which have robust balance sheets that may help insulate them from the credit issues now confronting the economy as a whole. A number of these companies currently pay attractive dividends and in a slower growth environment, investor preferences may lean in the direction of yield rather than the emphasis on capital appreciation in recent years.

This Fund is managed by ClearBridge Advisors

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

ClearBridge U.S. Fundamental Value Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -22.41% | 12.01% | 9.23% | 11.42% | 11.85% | 18.30% | 94.01% |
| Benchmark ² (USD) | -21.52% | 16.52% | 10.23% | 14.57% | 14.26% | 31.94% | 32.39% |

Performance Inception Date: 03/08/1998. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Fundamental Value Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.*

¹ ClearBridge U.S. Fundamental Value Fund (Class A Distr. (A)).

² Russell 3000 Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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October 2008

Ref: 3945

Batterymarch Pacific Equity Fund

Market Review

In a period without precedent in modern financial markets, the MSCI All Country Asia ex-Japan Index declined 22.9% during the third quarter in US dollar terms, outperforming the MSCI Emerging Markets Index, which was down 26.9%, and underperforming the MSCI World Index, which declined 15.3%. Asian markets reacted fully to the global financial market turmoil during the period, with a decline that began in earnest when commodity prices started falling in mid-July. Indeed, from 11 July (the day oil prices peaked at \$147) to the end of the quarter, the MSCI All Country Asia ex-Japan Index declined 22.1% in US dollar terms compared with respective declines for the MSCI World and the S&P 500 of 11.6% and 5.5%.

Within Asian markets, regional heavyweight China, which declined 25.5%, was previously a clear valuation outlier but the Fund's investment manager notes that it is now trading at multiples more in line with other emerging markets. The forward price/earnings (P/E) multiples at quarter-end in China were 9.5x, for example, having reached the mid-twenties during last year's rally.

Elsewhere, India, like other net commodity importers, relatively outperformed the region during the quarter. The Indian market fell by 13.9% over the period, but for the year-to-date it has declined by 49.5%. The other larger Asian markets all performed roughly in line with the MSCI All Country Asia ex-Japan Index over the third quarter, with South Korea, Taiwan and Indonesia returning -24.2%, -24.8% and -26.2%, respectively, and the developed Asian markets, Hong Kong and Singapore, recording respective declines of 22.7% and 21.1%. The Fund's investment manager believes, however, that while stock market returns in Asia continue to reflect concerns about US and global issues, domestic economic strength is apparent across the region.

Fund Review

Since the global equity market peak in October 2007, the performance of the investment manager's stock selection and country models has generally been weak, despite success during the second quarter of 2008. Expectations and technicals, the best performing dimensions of the manager's model last year, have struggled during the market correction. The value and earnings growth dimensions have generally been stronger, but during the third quarter, the earnings growth dimension was also meaningfully negative and only value was predictive. During this period of weakness in the manager's model, its strategy of moderating overweight and underweight positions has allowed it to perform roughly in line with the benchmark since the beginning of the correction.

The Batterymarch Pacific Equity Fund fell by 22.89%¹ in US dollar terms over the third quarter, in line with its benchmark, the MSCI Asia Ex-Japan (Gross) Index, which recorded exactly the same decline in dollar terms of 22.89%. Looking at the effect of the Fund's stock selection on its performance, selections were most negative in China. Stock selection was also a negative influence in Thailand and Malaysia, while it had a neutral effect in the developed markets of Hong Kong and Singapore. Looking at sector groups, the Fund's exposure to stocks in the materials industry continued to detract from its returns during the quarter, after adding significant value last year. Stock selection and allocation to capital goods and telecommunication services were notably positive influences during the third quarter, however.

The manager's investment process emphasises stock selection, with a secondary focus on country allocation. Turning to the impact of country allocation, this was mixed during the third quarter, with beneficial positions that included being overweight in South Korea and a small holding in cash in a declining market. At the end of the period, the Fund was most overweight in South Korea and most underweight in Hong Kong. Across industry groups, the Fund was most overweight in telecom services and most underweight in diversified financials.

Outlook

The investment manager notes that investment-led growth continues in many Asian markets despite heightened global growth concerns. While as recently as the second quarter the manager had concerns that tightening monetary policy and liberalisation of energy prices would have a moderating impact on growth, it now notes that already we are seeing the early stages of policy initiatives intended to spur future growth in emerging market economies – with China leading the way through interest rate reductions and other qualitative initiatives.

The manager continues to seek investment opportunities that respond to domestic growth drivers. It believes that the backdrop of attractively valued currencies, strong foreign reserve positions and strong domestic consumption continues to provide a supportive environment for corporate earnings.

This Fund is managed by Batterymarch Financial Management

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Batterymarch Pacific Equity Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -39.55% | 75.37% | 23.94% | 32.46% | NA | NA | 56.57% |
| Benchmark ² (USD) | -38.65% | 61.22% | 23.13% | 30.62% | NA | NA | 53.75% |

Performance Inception Date: 25/02/2004.

¹ Batterymarch Pacific Equity Fund (Class A Distr. (A))

² MSCI AC Asia ex Japan Gross Dividends Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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October 2008

Ref: 3957

Western Asset Q3 2008 Euro Fixed Income Strategies

Key Points

- The manager's European fixed income strategies produced negative absolute returns and underperformed their benchmarks over the third quarter.
- While government bond markets strengthened during the third quarter, non-government bonds remained under severe pressure.
- Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term.
- When the functioning of financial markets is restored, the significant discounts at which the non-government sectors are currently trading should moderate and pricing should once again reflect fundamentals.

Market Review

Despite a rise in interest rates early in the quarter, Eurozone government bonds strengthened over the period as risk aversion surged and economic data weakened. Meanwhile, non-government bonds remained under severe pressure, with high yield corporate bonds and financials faring the worst.

Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. In the US, the government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised. In the banks sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was to be taken over by Citigroup (which was later successfully challenged by Wells Fargo) and JP Morgan Chase absorbed Washington Mutual. The Federal Reserve (Fed) also announced a bail out of insurer American International Group (AIG). The ongoing financial crisis also took its toll on European banks forcing a number of European governments to provide support.

Despite a variety of measures implemented by central banks and governments around the globe, credit markets and the financial system ended the period at a virtual standstill. The US Congress, in its most dramatic move to date, announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The European Central Bank (ECB) joined the Fed and a number of the major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, a number of central banks, including the Fed, ECB and Bank of England, announced co-ordinated action to cut interest rates by 50 basis points).

Strategy*

The manager's European fixed income strategies produced negative absolute returns and underperformed their benchmarks over the third quarter.

The manager's positions in non-government bonds had a negative impact on performance, as spreads soared in the wake of heightened fear and a breakdown of trust in the financial system. The manager maintained its overweight exposure to investment grade corporate bonds, with an emphasis on financials, and held a moderate and well-diversified exposure to high yield corporate bonds. Elsewhere, the manager continued to favour selective positions in non-euro markets, in particular in Danish and US mortgage-backed securities (MBS) and Polish and Hungarian government bonds. However, these also had a negative impact on performance over the period, although US MBS staged a recovery late in the period.

In government bonds, the manager held an underweight position in eurozone issues, which detracted from performance as government bonds benefited from investors' flight to quality. The manager also held yield curve positions that would benefit from an outperformance of longer dated bonds compared to shorter dated issues. However, as investors reined in their expectations for further rate hikes, the short end outperformed and these positions had a negative impact on performance. Meanwhile, in currencies, the manager continued to favour the US dollar relative to the euro, which added value as the euro weakened.

Outlook

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. Economic conditions in the eurozone are deteriorating and the manager believes there is a strong likelihood that the region will fall into recession.

*Please note that not all strategies have allocations to the sub-sectors covered in this commentary. Please see relevant fund factsheet for individual allocations.

Western Asset Q3 2008 Euro Fixed Income Strategies

For the moment, however, bond markets remain driven by financial market tensions rather than indications from economic data. Whether or not a recession will occur is of secondary significance against this backdrop. Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term. Assuming that governments' and central banks' policy response succeeds in restoring the functioning of financial markets, trust in the financial system will eventually recover. At that point, the significant discounts at which the non-government sectors are currently trading should moderate and pricing should once again reflect fundamentals, such as the underlying probability of defaults.

The manager continues to see long-term opportunities in non-government bonds. The manager aims to maintain its overweight exposures to investment grade corporate bonds, with a particular focus on financials, and a small and well-diversified exposure to high yield corporate bonds. Elsewhere, the manager continues to favour US and Danish MBS and a modest and well diversified exposure to peripheral markets, such as Poland and Hungary.

These strategies are managed by Western Asset Management

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The strategies are representative of those employed by the European Fixed Income sub-funds within Legg Mason Global Funds plc (listed below).

Western Asset Euro Core Plus Bond Fund

(Prior to 21 April 2008 the Western Asset Euro Core Plus Bond Fund was known as the Western Asset Euro Core Bond Fund.)

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These funds are offered solely to non-US investors under the terms and conditions of the Fund's current prospectus — please refer to the Simplified Prospectus and Prospectus documentation, which describe the full objective and risk factors associated with each Fund. Before investing you should carefully read the Prospectus. Copies of prospectuses, simplified prospectus, semi-annual and annual reports, if published, may be obtained at: PNC Global Investment Servicing (Europe) Limited, Riverside Two, Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland.

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October 2008

Ref: 3973

Batterymarch Emerging Markets Equity Fund

Market Review

During the third quarter emerging markets finally succumbed fully to the global financial market turmoil and experienced high levels of volatility. The MSCI Emerging Markets Index finished the quarter down 27.0% in US dollar terms, lagging the MSCI World Index decline of 15.3% in dollar terms for the same period. This relative decline began in earnest when commodity prices started moving downward in mid-July. Indeed, from 11 July (the day oil prices peaked at \$147) to the end of the quarter, the MSCI EM Index fell 23.9% compared with declines of 11.7% for the MSCI World Index and 5.5% for the S&P 500 Index.

Asia fell by less than other emerging markets in the third quarter, ending down 23.0%, although the region still lags the broader emerging markets indices for the year to date. Regional heavyweight China, down 25.2%, was previously a clear valuation outlier, but the investment manager notes that it is now trading at multiples more in line with other emerging markets. India, like other net commodity importers, held up relatively well during the quarter, falling 13.9%, but was still down 49.5% for the year-to-date.

The Europe, Middle East, Africa Index declined 28.5% during the quarter, with commodity producer Russia leading the way down as it declined by 45.3%. In Latin America, meanwhile, despite the fact local economies have so far weathered the global financial crisis much better than in previous episodes of turmoil, equity markets were highly volatile and underperformed global indices, declining by 32.6%. Brazil, entering a global crisis for the first time as a net creditor, reported economic growth for the second quarter that exceeded expectations, but saw its equity market plunge 37.7% in the third quarter on fears that a global economic slowdown will exert further pressure on commodity prices.

Fund Review

The Batterymarch Emerging Markets Equity Fund was launched at the end of April. We are unable to show performance figures until the Fund has been active for one year. During the third quarter, however, the Fund's stock selection and its country allocation detracted from its performance relative to its benchmark, the MSCI Emerging Markets Net Dividends Index. Stock selection detracted from returns in Russia, China, Mexico and South Africa, while it was notably positive only in Turkey and more modestly positive in India, South Korea and Brazil. Country allocation decisions were also generally negative, mainly due to underweight positions in the more defensive markets of Eastern Europe and Israel, along with overweight exposures to Russia and Brazil. However, the Fund's overweight positions in Turkey, South Africa and South Korea had a positive impact on its relative performance.

With respect to industry groups, the Fund remained, on average, overweight to the underperforming materials group during the quarter, and somewhat underweight in several of the more defensive groups. Stock selection was weak in the materials group, offsetting relative strength in other areas that included capital goods and telecommunication services.

At the end of the quarter, the portfolio was most overweight relative to the benchmark in Brazil and Turkey, and most underweight in Israel and India. With the exception of Turkey, the overweight countries continue to reflect the manager's preference for companies whose earnings benefit from domestic economic liquidity supported by commodity prices. The manager has, however, begun a rotation towards more exposure in markets like Turkey that benefit from lower commodity prices. With respect to industry groups, the portfolio was most overweight in consumer durables and most underweight in utilities, software & services and energy.

The investment manager notes that the Fund's forward P/E ratio at quarter-end was 7.6x compared with 8.5x for the MSCI EM Index and 10.5x for the MSCI World index. The manager also notes that the volatile price action of the quarter returned emerging market equities to their historical valuation discount to developed market equities. The manager's earnings growth forecast for the Fund is 16.7% for the next two years compared with 16.1% and 11.8% for the MSCI EM and World indices, respectively, although the manager notes that expected earnings remain vulnerable to continued downward revision.

Outlook

The Fund's manager observes that investment-led growth continues in many emerging markets despite heightened global growth concerns. While as recently as the second quarter the manager had concerns that tightening monetary policy and liberalisation of energy prices would have a moderating impact on growth, it now notes that we are already seeing the early stages of policy initiatives intended to spur future growth in emerging market economies – with China leading the way through interest rate reductions and other qualitative initiatives.

The manager continues to seek investment opportunities that respond to domestic growth drivers. It believes the backdrop of attractively valued currencies, strong foreign reserve positions and strong domestic consumption in many emerging market countries continues to provide a supportive environment for corporate earnings.

This Fund is managed by Batterymarch Financial Management

Batterymarch Emerging Markets Equity Fund

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ClearBridge U.S. Aggressive Growth Fund

Market Review

The third quarter of 2008 will be remembered as the three months that transformed the US financial system. Key events included the nationalisation of Fannie Mae and Freddie Mac, the seizure of AIG by the Federal government, the conversion of Goldman Sachs and Morgan Stanley into bank holding companies, and the likes of Lehman Brothers, Washington Mutual and Wachovia all but ceasing to exist. All of these events resulted from the bursting of the massive credit bubble in the US banking system and from the significant slowdown in housing.

The manager notes that it is safe to say that no one who has been following markets for less than 75 years, has seen anything exactly like what financial markets are experiencing now. There are definite similarities with other volatile times, including the bankruptcy of the Hunt brothers and subsequent failure of Bache in March of 1980, the recession-driven lows of 1982, the Savings & Loan crisis in 1990, Long Term Capital Fund's failure in 1998, or the confidence-driven lows in 2002-2003 around the failure of Enron and WorldCom. However, the events of September probably feel most similar to the Black Monday crash of October 1987 and the days following the stunning 22% decline.

While there were certainly other reasons for the 1987 crash, perhaps the most significant was the existence of portfolio insurance derivatives, which ultimately caused holders of these instruments to sell on every downtick, causing a cascade of selling. The decline of financials sector shares this year was similarly driven by the huge build up of derivatives, most importantly credit default swaps, which act as insurance policies on the issuer's inability to pay off existing debt. As the shares of a company's stock fell, speculators continued to buy credit default swaps, causing credit spreads to widen and, in a similar fashion to 1987, the crisis of confidence in equity shares became self-fulfilling. In other words, selling sparked further selling.

In each of the historical examples mentioned above, despite the financial crisis evident in the market, each episode proved a compelling buy opportunity for equities, and the manager has reason to believe this time will be similar. In the days following the Crash of '87, individuals questioned the viability of the financial system and markets, just as they are doing now. The steps being taken by the US federal government are unprecedented and, the manager believes, essential to maintaining fully liquid and properly operating credit and equity markets. In addition to the rescue package passed by Congress, the Federal Reserve (Fed) has added significant reserves to the financial system. The manager believes it will keep short-term interest rates low, in order to maintain sufficient available capital to both individuals and businesses.

Against this backdrop, the ClearBridge US Aggressive Growth Fund fell by 13.62% in US dollar terms during the third quarter, behind its benchmark, the Russell 3000 Growth Index, which recorded a dollar fall of 11.93%. For the third quarter, both the manager's overall sector allocation and overall stock selection negatively impacted Fund performance relative to the Russell 3000 Growth Index. Negative influences over the quarter included stock selection in the financials, energy and information technology (IT) sectors. The Fund's overweight to the energy sector and underweight (no holdings) to the consumer staples sector also negatively impacted relative performance during the third quarter. Individual stocks in the negative category included Weatherford International, Anadarko Petroleum, National Oilwell Varco, and Core Laboratories, all in the energy sector, and Lehman Brothers Holdings in the financials sector.

In the positive category, The Fund's overweight allocations in the health care, consumer discretionary sectors and underweight exposures to the materials and utilities sectors (no holdings in either) helped performance. Stock selection in the health care, industrials and consumer discretionary sectors also contributed positively to relative performance. In terms of individual stocks, the top contributors to Fund performance for the quarter included positions in ImClone Systems, Amgen, Genzyme and Covidien, all in the health care sector, as well as in L-3 Communications Holdings in the industrials sector.

The majority of the companies within the Fund have strong balance sheets with good cash flows and what the manager considers to be better-than-average opportunities for growth. It continues to have confidence in its time-tested approach of buying and holding top-tier franchises and allowing earnings and cash flows to compound over time. While both volatility and stress on the system have been extraordinarily high, the manager feels that the US financial system remains strong and will emerge from this crisis healthier than it's been in many years.

This Fund is managed by ClearBridge Advisors

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

ClearBridge U.S. Aggressive Growth Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -25.86% | 9.58% | 7.14% | 17.66% | 12.00% | 14.70% | 6.10% |
| Benchmark ² (USD) | -20.60% | 19.31% | 6.05% | 12.13% | 7.82% | 21.45% | -30.35% |

Performance Inception Date: 25/05/2000. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Aggressive Growth Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.*

¹ ClearBridge U.S. Aggressive Growth Fund (Class A Distr. (A))

² Russell 3000 Growth Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

* The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.80% in comparison to the predecessor fund of 1.42% - there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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October 2008

Ref: 3979

ClearBridge U.S. Large Cap Growth Fund

Market Review

The greatest credit bubble the US has ever seen came to a spectacular end during the third quarter, requiring the largest rescue package ever put together by Congress, the Federal Reserve Board ('Fed') and the US Treasury. The US government, taxpayers, shareholders and consumers are currently facing parallel concerns: worries over liquidity and balance sheet strength in financial services, as well as the severity and duration of the consumer-led recession. De-leveraging, spanning the spectrum from individual to banks to hedge funds to small businesses, has occurred at record pace.

For conditions to ease, credit – the grease of the economy as well as financial services – has to 'unfreeze' so confidence in the system can rebuild. Banks have to feel comfortable lending to each other, General Electric (AAA credit) has to be able to fund its operations in the commercial paper market, financial institutions must lend to individuals with good credit and consumers have to feel safe about the cash and money funds held in these institutions. The manager believes that we are close to this happening, freeing up for those with sound credit. It further notes that the government rescue package is a great start, but is not a comprehensive solution. However, hard decisions still have to be made and there will be further dislocations.

Fund Review

The ClearBridge U.S. Large Cap Growth Fund lost 7.00%¹ in US dollar terms during the third quarter, holding up considerably better than its benchmark, the Russell 1000 Growth Index, which fell by 12.33% in dollar terms.

Overall sector allocation made a significant positive impact on the Fund's performance in the third quarter relative to the benchmark. In contrast, the impact of overall stock selection was negative.

In particular, stock selection in the health care, consumer discretionary, consumer staples and industrials sectors contributed to performance, while stock selection in the financials and information technology (IT) sectors detracted from relative performance. In terms of sector allocation, the Fund's underweight exposure to the energy, materials, utilities (no holdings for the period), and industrials sectors all helped performance, as did its overweight investment in the health care, consumer discretionary and financials sectors. The Fund's underweight to the consumer staples sector had a negative impact on relative performance for the third quarter.

In terms of specific stocks, leading contributors for the period included positions in Genentech and Amgen, both in the health care sector, Sears Holdings and Procter & Gamble in the consumer discretionary sector, and Berkshire Hathaway in the financials sector. Significant individual stock detractors for the period included positions in Akamai Technologies and Red Hat in the IT sector, and American International Group, Merrill Lynch and Lehman Brothers all in the financials sector.

Outlook

In previous Fund reviews, the manager commented on the unsustainable rally in the deepest part of the cycle, notably: energy, materials, and industrials. Starting July 15th, this unwinding has occurred at astonishing speed. Market leadership has finally broadened to include health-care and consumer staples as investors position themselves for the global economic slowdown. The manager suggests, learning from previous periods, that anytime any sector, industry, or asset class becomes this monolithic to the upside (similar to technology/telecom/Internet stocks in the late 90's, and energy/materials/industrials currently), it usually ends badly for those investors. The Fund has been positioned (albeit early) for such a rotation, but the velocity of the unwinding has been surprising.

The manager continues to emphasise companies it believe possess balance sheet strength, global brands, the ability to self-fund current operations and management teams that can navigate and take advantage of this turmoil. If one believes that equities are anticipatory, as the manager does, positioning for the recovery is a prudent strategy. It notes that volatility indices are at all time highs and believes that valuations haven't been this attractive in decades.

This Fund is managed by ClearBridge Advisors

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

ClearBridge U.S. Large Cap Growth Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -24.50% | 15.09% | 0.38% | 12.71% | 1.19% | -0.52% | -7.98% |
| Benchmark ² (USD) | -20.88% | 19.35% | 6.04% | 11.60% | 7.51% | 20.14% | -16.81% |

Performance Inception Date: 18/02/1999. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Large Cap Growth Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.*

¹ ClearBridge U.S. Large Cap Growth Fund (Class A Distr. (A))

² Russell 1000 Growth Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

*The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.75% in comparison to the predecessor fund of 1.37% – there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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October 2008

Ref: 3980

ClearBridge U.S. Appreciation Fund

Market Review

The third quarter of 2008 will be remembered as the three months that transformed the US financial system. Key events included the nationalisation of Fannie Mae and Freddie Mac, the seizure of AIG by the Federal government, the conversion of Goldman Sachs and Morgan Stanley into bank holding companies, and the likes of Lehman Brothers, Washington Mutual and Wachovia all but ceasing to exist. All of these events resulted from the bursting of the massive credit bubble in the US banking system and from the significant slowdown in housing.

While there were certainly other reasons for the 1987 crash, perhaps the most significant was the existence of portfolio insurance derivatives, which ultimately caused holders of these instruments to sell on every downtick, causing a cascade of selling. The decline of financials sector shares this year was similarly driven by the huge build up of derivatives, most importantly credit default swaps, which act as insurance policies on the issuer's inability to pay off existing debt. As the shares of a company's stock fell, speculators continued to buy credit default swaps, causing credit spreads to widen and, in a similar fashion to 1987, the crisis of confidence in equity shares became self-fulfilling. In other words, selling sparked further selling. In each of the historical examples mentioned above, despite the financial crisis evident in the market, each episode proved a compelling buy opportunity for equities, and the manager has reason to believe this time will be similar. In the days following the Crash of '87, individuals questioned the viability of the financial system and markets, just as they are doing now. The steps being taken by the US federal government are unprecedented and, the manager believes, essential to maintaining fully liquid and properly operating credit and equity markets. In addition to the rescue package passed by Congress, the Federal Reserve (Fed) has added significant reserves to the financial system. The manager believes it will keep short-term interest rates low, in order to maintain sufficient available capital to both individuals and businesses.

Fund Review

Against this backdrop, the ClearBridge U.S. Appreciation Fund performed slightly behind its benchmark, losing 8.51%¹ in dollar terms versus a dollar loss of 8.37% for the S&P 500 Index. On an absolute basis, the Fund's strongest returns in the third quarter came from the consumer staples, financials and the health care sectors, while the weakest returns were seen in the energy, information technology, materials and industrials sectors.

Relative to the benchmark S&P 500 Index, the Fund's performance was helped by the manager's overall sector allocation, while the overall impact of stock selection was negative. In particular, stock selection in the consumer staples, health care, industrials and materials sectors made significant contributions to relative performance for the quarter, as did underweight exposure to the energy and utilities sectors. The Fund's overweight exposure to the materials sector and underweight investment in the health care, consumer discretionary and consumer staples sectors hurt the Fund's performance in comparison to the benchmark, as did stock selection in the energy sector.

In terms of individual stocks, the leading contributors to Fund performance for the quarter included JPMorgan Chase, Berkshire Hathaway, and Wells Fargo in the financial sector, as well as Procter & Gamble in the consumer staples sector and Johnson & Johnson in the health care sector. The leading detractors from Fund performance included positions in Newfield Exploration, Nabors Industries, El Paso, Devon Energy and SandRidge Energy, all in the energy sector.

Outlook

Turning to the outlook the manager observes that with the passage of the new rescue measures, the fear of collapse of the financial system has somewhat diminished, but that the longer term impacts, in terms of an economic recession, remain.

With history as a guide, the manager notes that markets have witnessed the kind of sharp liquidation that usually precedes significant bottoming in prices. In the past, the manager could use such fearful behaviour as a guide to seeking value in the market and trying to peer over the abyss to better times. Before abandoning caution, however, it needs to see a sign of stability in the root cause of so many problems – housing. Specifically, it would need to see a drop in inventory of unsold homes, along with price levels that will let buyers feel that values are present. Therefore, the manager continues to tread carefully, emphasising diversification and companies with what it believes are secure dividends or the ability to withstand economic shocks.

This Fund is managed by ClearBridge Advisors

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

ClearBridge U.S. Appreciation Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -15.56% | 15.38% | 8.05% | 8.00% | NA | NA | 16.09% |
| Benchmark ² (USD) | -21.98% | 16.44% | 10.79% | 12.25% | NA | NA | 15.67% |

Performance Inception Date: 14/05/2004. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Appreciation Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.*

¹ ClearBridge U.S. Appreciation Fund (Class A Distr. (A)).

² S&P 500 Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

* The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.75% in comparison to the predecessor fund of 1.37% – there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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October 2008

Ref: 3985

Royce Smaller Companies Fund

Market Review

Small-cap stocks continued to hold up better than their large-cap counterparts in the volatile third quarter, with the Russell 2000's decline of 1.1% in sharp contrast to an 8.4% loss for the S&P 500 and a 9.2% loss for the more tech-oriented Nasdaq Composite. Year-to-date performance to the end of September showed a similar pattern, with small-caps leading. Through the year's first nine months, the Russell 2000 was off 10.4% versus losses of 19.3% and 21.5% for the S&P 500 and Nasdaq Composite.

The primary contribution to the Russell 2000's year-to-date outperformance resulted from changes in the small-cap index's composition at its annual re-balancing on June 30. During the rebalancing, a number of financial stocks were added at close to their market lows, while many energy and materials companies were removed from the index at near-peak levels. The Russell 2000 also enjoyed a performance advantage over the S&P 500 and Nasdaq Composite for the one, three, five and ten-year periods to the end of September. Within U.S. small cap, the value style of investing enjoyed a decided advantage for the quarter, with the Russell 2000 Value Index up 5.0% versus a loss of 7.0% for the Russell 2000 Growth Index. Year-to-date results to the end of the quarter followed a similar pattern, with the small-cap value index down 5.4% versus a loss of 15.3% for the small-cap growth index. While micro-caps held their own for the quarter, they remained behind small-caps for the year-to-date period. In the third quarter, the Russell Microcap index was down 0.8%, and down 16.2% year-to-date.

Fund Review

The Royce Smaller Companies Fund underperformed its benchmark index, the Russell 2000, for the third quarter, falling by 13.34%¹ compared to the index which fell 1.11%. Over the year to date, the Fund fell 11.28% compared to a 10.38% drop for the Index. However, the Fund outperformed the Russell 2000 index for the three-year and since inception periods ended 30 September 2008. The Fund's average annual total return since inception was 8.19%.

Third-quarter performance was negative across three of the Fund's nine equity sectors. Natural resources was the worst performing sector, with industrial products following in terms of net losses for the quarter. The financial intermediaries sector also posted a relatively small net loss. The energy services group and precious metals and mining holdings were the most significant detractors within natural resources, while the metal fabrication and distribution industry led the industrial products sector in net losses. Of the Fund's six sectors with net gains, consumer products and industrial services performed best, yet provided only modest gains.

Year-to-date results were also disappointing, with only two of the Fund's nine equity sectors – health and industrial services – in modestly positive territory. Natural resources and industrial products contributed most to the Fund's poor year-to-date performance. The technology, consumer products, financial services, financial intermediaries and consumer services sectors also posted net losses on a US dollar basis.

The three worst stocks for the quarter were all in the metal fabrication sector and included Schnitzer STell Industries, Reliance Steel & Aluminum and Sims Group. Top performing stocks included Foundry Networks in the Telecoms sector, Alpharma in the Drugs and Biotech sector and Corinthian Colleges within commercial services.

Outlook

While the manager remains concerned about the current financial crisis and the potential for an extended economic recession, it believes that the resulting policy reaction to recent market turmoil has laid the groundwork for what should be a solid period for equities, led by small-caps, over the next three to five years.

The manager sees the next 12-24 months as a time to prepare and position its portfolios for a market and economic rebound that looks at least a year or two away. In the meantime, the manager will continue to do what it always does: buy what it believes are high quality smaller companies trading at attractive prices.

This Fund is managed by Royce & Associates

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Royce Smaller Companies Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -17.64% | 21.39% | 11.34% | 23.12% | NA | NA | 43.47% |
| Benchmark ² (USD) | -14.48% | 12.34% | 9.92% | 17.95% | NA | NA | 20.81% |

Performance Inception Date: 01/03/2004.

¹ Royce Smaller Companies Fund (Class A Distr. (A))

² Russell 2000 Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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November 2008

Ref: 3989

Royce U.S. Small Cap Opportunity Fund

Market Review

Small-cap stocks continued to hold up better than their large-cap counterparts in the volatile third quarter, with the Russell 2000's decline of 1.1% in sharp contrast to an 8.4% loss for the S&P 500 and a 9.2% loss for the more tech-oriented Nasdaq Composite. Year-to-date performance through the end of September showed a similar pattern, with small-caps leading. Through the year's first nine months, the Russell 2000 was off 10.4% versus losses of 19.3% and 21.5% for the S&P 500 and Nasdaq Composite.

The primary contribution to the Russell 2000's year-to-date outperformance resulted from changes in the small-cap index's composition at its annual re-balancing on June 30. During the rebalancing, a number of financial stocks were added at close to their market lows, while many energy and materials companies were removed from the index at near-peak levels. The Russell 2000 also enjoyed a performance advantage over the S&P 500 and Nasdaq Composite for the one, three, five and ten-year periods to the end of September. Within U.S. small cap, the value style of investing enjoyed a decided advantage for the quarter, with the Russell 2000 Value Index up 5.0% versus a loss of 7.0% for the Russell 2000 Growth Index. Year-to-date results to the end of the quarter followed a similar pattern, with the small-cap value index down 5.4% versus a loss of 15.3% for the small-cap growth index. While micro-caps held their own for the quarter, they remained behind small-caps for the year-to-date period. In the third quarter, the Russell Microcap index was down 0.8%, and down 16.2% year-to-date.

Fund Review

The Royce U.S. Small Cap Opportunity Fund struggled through a volatile quarter for smaller companies. The Fund underperformed its benchmark index, the Russell 2000, for the third quarter, falling by 3.93%¹ compared to the benchmark fall of 1.11%, and for the year-to-date period -16.9% compared to -10.4%. However, the Fund outperformed the Russell 2000 since inception period to the end of the quarter, and the average annual total return since inception has been 14.5%.

Third-quarter performance was negative across five of the Fund's nine equity sectors. Technology and, to a lesser extent, industrial products were the worst-performing sectors, accounting for the majority of the Fund's losses. Within these sectors, the semiconductor and equipment group, and the metal fabrication and distribution industry, were the biggest detractors from the Fund's performance. Of the Fund's four positive contributing sectors, only financial intermediaries posted more than modest net gains.

Year-to-date, out of the Fund's nine equity sectors, only natural resources was in positive territory. Technology made an outsized negative contribution, followed by industrial services, consumer services and industrial products. Within technology, the semiconductor and equipment group, aerospace and defense holdings, and the components and systems group led in terms of losses.

The two worst performers over the period were both within the technology sector, ANADIGICS and ADC Telecommunications. The two top performers, Gehl Company and Trex Company, were both within industrial products.

Outlook

While the manager remains concerned about the current financial crisis and the potential for an extended economic recession, it believes that the resulting policy reaction to recent market turmoil has laid the groundwork for what should be a solid period for equities, led by small-caps, over the next three to five years.

The manager sees the next 12-24 months as a time to prepare and position its portfolios for a market and economic rebound that looks at least a year or two away. In the meantime, the manager will continue to do what it always does: buy what it believes are high quality smaller companies trading at attractive prices.

This Fund is managed by Royce & Associates

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Royce U.S. Small Cap Opportunity Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -23.50% | 11.78% | 10.87% | 16.94% | 21.86% | 35.10% | 122.11% |
| Benchmark ² (USD) | -14.48% | 12.34% | 9.92% | 17.95% | 18.77% | 47.95% | 92.77% |

Performance Inception Date: 08/11/2002.

¹ Royce U.S. Small Cap Opportunity Fund (Class A Distr. (A))

² Russell 2000 Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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November 2008

Ref: 3992

Western Asset Global Multi Strategy Fund

Key Points

- The Fund posted a return of -6.52%¹ in US dollar terms over the third quarter. It lagged its composite benchmark, which fell by 5.17% over the period.
- The Fund's positions in subordinated financials and global high yield corporate bonds were the main detractors from performance. Meanwhile, the Fund's underweight exposures to the euro and sterling and the manager's focus on local currency emerging market debt assisted returns.
- Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term.
- The manager continues to see value in non-government bonds and believes investors should remain committed to these sectors of the bond market.

Market Review

Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. The government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised to provide stability to the mortgage market. In the banks sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was taken over by Wells Fargo and JP Morgan Chase absorbed Washington Mutual. In addition, investment banks Morgan Stanley and Goldman Sachs converted to bank holding companies. In addition, the Federal Reserve (Fed) also announced a bail out of insurer American International Group (AIG). The ongoing financial crisis also took its toll on European banks forcing a number of European governments to provide support.

Despite a variety of measures implemented by central banks and governments around the globe, credit markets ended the period at a virtual standstill. Policy efforts by the US government and the Fed included a \$50 billion provision to insure money-market mutual fund holdings, expanded lending facilities for commercial banks and put in place curbs on short selling of financial stocks. In its most dramatic move to date, the US Congress announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The Fed joined a number of other major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, the Fed and a number of other central banks announced co-ordinated action to cut interest rates by 50 basis points). In Europe, while EU-wide fiscal initiatives had initially been slow, individual member states are now aggressively taking independent counteractive action, including deposit guarantees and coordinated government recapitalisation of troubled institutions.

Emerging market bonds

Emerging market debt suffered as spreads widened and currencies plunged in tandem with riskier asset classes. Although fundamentals remained positive, the return of risk aversion led investors to seek safety in the US dollar. Excluding the negative impact of currency depreciation, local currency debt performed well as inflation pressures declined. US dollar-denominated bonds generated a total return of -4.6%, while local currency debt returned 5.8%.

Mortgages/TIPS

Mortgage-backed securities (MBS) broke their correlation with the corporate sector and began outperforming Treasuries once the government sponsored entities Fannie Mae and Freddie Mac were nationalised in early September. MBS returned 2.0% over the quarter. US Treasury Inflation-Protected Securities (TIPS) suffered as oil prices plunged and investors' desire for inflation protection faded. TIPS underperformed conventional Treasuries, with returns of -3.6% and 2.4% respectively.

Investment grade

Risk aversion soared during the quarter and spreads on investment grade corporate bonds reached record wide levels, as investors sought refuge in safer government bonds. Financials were hit particularly hard following a wave of failures. On a regional basis, the eurozone outperformed the UK and the US in local currency terms with returns of -2.1%, -3.9% and -7.5% respectively.

¹ Class A Distr. (D) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Western Asset Global Multi Strategy Fund

High yield

After outperforming all the other major fixed income asset classes and most equity markets in the second quarter, global high yield bonds came under severe pressure during the third quarter, with the US market recording its worst quarterly performance on record. Spreads widened to levels not seen since the scandals surrounding Enron and Worldcom earlier in the decade. The asset class was the weakest performer within fixed income in all the major regions, with total returns ranging from -9.2% to -10.8% in local currency terms.

Foreign government bonds

Peripheral market returns were mixed to slightly positive, with Hungarian and Mexican government bonds gaining slightly. In general, inflation fears abated on easing commodity price inflation.

Fund Review

The Western Asset Global Multi Strategy Fund posted a return of -6.52%¹ in US dollars over the third quarter, lagging its composite benchmark, which fell by 5.17% over the same period. The composite benchmark comprises the Lehman Global Aggregate Index (50%), the Lehman High Yield 2% Issuer Capped Index (25%), and the JP Morgan Emerging Markets Bond+ Index (25%). The Fund also lagged its sector, the Morningstar Offshore Fixed Income Global USD Based, which returned -4.39%².

During the quarter, the Fund's exposures to subordinated financials and global high yield corporate bonds were the main detractors from performance. Meanwhile, the Fund's underweight exposures to the euro and sterling and the manager's focus on local currency, rather than US dollar-denominated, bonds in emerging markets assisted returns.

Portfolio activity

During the quarter, the manager reduced the Fund's exposure to US government bonds following the massive rally in the market. Meanwhile, it increased its modest exposure to TIPS (to around 3% of the Fund) and MBS (to around 22%) over the quarter. The Fund's overall allocation to investment grade corporate issues was around 20% and it maintained a diversified exposure to US and European high yield corporate bonds (of just below 30%). Within investment grade corporate bonds, the manager maintained its exposure to subordinated financials, as it believes valuations remained attractive and continued to reflect investors' fear rather than long-term fundamentals. In emerging markets, the manager maintained an underweight allocation to foreign currency denominated government bonds and continued to hold a diversified exposure to local currency denominated government bonds and foreign currency denominated corporate bonds. The Fund's local emerging market exposure is around 10% with a further 12% allocated to external emerging market debt, including emerging market corporate bonds. In currencies, the manager reduced its exposure to the Turkish lira and Indian rupee, taking profits versus the euro, while adding to the Australian dollar. It also reduced its underweight in the euro and sold US dollars.

Outlook

Summary

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. The manager continues to believe that recently announced and any forthcoming actions should be sufficient to prevent financial markets strains from deep dislocations in the global economy. Although the manager does expect a mild recession across much of Continental Europe and in the UK, and a recession is possible in the US, it believes that many of the developing economies should continue to post positive real growth into 2009.

For the moment, however, bond markets remain driven by financial market tensions rather than indications from economic data. Whether or not a recession will occur is of secondary significance against this backdrop. Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term. Assuming that governments' and central banks' policy response succeeds in restoring the functioning of financial markets, trust in the financial system will eventually recover. At that point, the significant discounts at which the non-government sectors are currently trading should moderate and pricing should once again reflect fundamentals, such as the underlying probability of defaults.

¹ Class A Distr. (D) US Dollar Shares.

² Source for sector median performance – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Western Asset Global Multi Strategy Fund

The manager continues to see value in non-government bonds and believes investors should remain committed to these sectors of the bond market. Until fundamentals show a trend of improvement, the manager believes it prudent to remain well diversified, to maintain an allocation to government bonds and to add risk selectively and cautiously.

Emerging markets

Although risk premiums are not likely to return to 'pre-crisis' levels anytime soon, long-term fundamentals continue to improve in emerging markets. Greater central bank credibility and anchored inflation expectations have had an influence on longer term growth prospects. The manager believes the recent weakness in a number of emerging market currencies is a cyclical phenomenon and that the longer term trend remains in favour of strengthening currencies. The manager continues to believe that within external US dollar denominated debt, corporate issues offer more attractive opportunities than government bonds. Within local currency markets, the manager looks for countries with ample reserves, a strong balance of payments and credible central banks. The manager continues to focus on those countries with high real interest rates and likely currency appreciation. More generally, the manager is maintaining an emerging markets exposure of around 20% and will reassess its allocation of around 10% in local currency assets with a view to reducing the exposure should alternative assets give a better risk/reward trade-off.

Mortgages/TIPS

The manager believes the MBS market continues to look attractively priced. Given the recent government backing, risk premiums should narrow over time. It aims to maintain a moderately overweight exposure to MBS (at around 20-25%). Following the reduction in inflation expectations (as measured by break-even spreads) during the past few months, the manager remains bullish on the return potential of TIPS and continues to hold the asset class as a hedge against the possibility of rising inflation expectations. The manager is likely to maintain the increased exposure compared to previous quarters (which stood at around 3% at the end of September).

Investment grade corporates

Although the manager expects markets to remain volatile, it believes valuations remain attractive as these reflect a too pessimistic view on default rates. In addition, the magnitude of government support and capital injections have been very supportive of financials in particular, and the manager would expect performance to improve as liquidity returns to financial markets and uncertainty over the quality of assets held by financials abates. The manager aims to hold an exposure of about 20%, including an allocation of around 12% to subordinated financials.

High yield bonds

While the manager sees weakening financial metrics in many industries, it does not believe that the fundamental credit backdrop is as weak as market pricing implies. Although default rates are rising from the cyclical low reached in November 2007, the market is pricing in an elevated level of default rates over the next five years which the manager thinks is unlikely to be reached and sustained. The manager aims to have an allocation in the 25-30% range.

Government bonds

The manager continues to favour slightly extended positions in government bond markets outside of Japan, as a hedge against its positions in the non-government sectors. It also believes selective peripheral markets look attractive. In currencies, the manager will continue to hold an allocation to the Japanese yen as a hedge against risk aversion.

This Fund is managed by Western Asset Management

Western Asset Global Multi Strategy Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -7.81% | 8.52% | 3.22% | 9.18% | 9.55% | 23.51% | 53.90% |
| Benchmark ² (USD) | -1.91% | 8.04% | 5.52% | 7.02% | 9.40% | 30.94% | 60.50% |

Performance Inception Date: 30/08/2002.

¹ Western Asset Global Multi Strategy Fund (Class A Distr. (D))

² 50% Lehman Bros. Global Agg. Index; 25% Lehman Bros. U.S. High Yield 2% Iss-Cap Index (LB U.S. H-Y Index prior 01/12/2005); 25% JP Morgan EMBI+ Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus – please refer to the Simplified Prospectus and Prospectus documentation, which describe the full objective and risk factors associated with this Fund. Before investing you should carefully read the Prospectus. Copies of prospectuses, simplified prospectus, semi-annual and annual reports, if published, may be obtained at: PNC Global Investment Servicing (Europe) Limited, Riverside Two, Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland.

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November 2008

Ref: 4000

Western Asset U.S. Money Market Fund

Market Review

The events that emerged over the third quarter are among the most dramatic seen in the markets in a very long time. The government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised to provide stability to the mortgage market. In the bank sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was to be taken over by Citigroup (which was later successfully challenged by Wells Fargo) and JP Morgan Chase absorbed Washington Mutual. In addition, Wall Street's remaining investment banks – Morgan Stanley and Goldman Sachs – converted to bank holding companies and the Federal Reserve (Fed) announced a bailout of insurer American International Group (AIG).

Despite a variety of measures implemented by the US government and the Fed, credit markets ended the period at a virtual standstill and banks remained unwilling to lend to each other. Policy efforts included a \$50 billion provision to insure qualifying, US-domiciled money-market mutual fund holdings, expanded lending facilities for commercial banks and put in place initiatives to curb short selling of financial stocks. In its most dramatic move to date, the US Congress announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The Fed joined a number of other major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, the Fed and a number of other central banks announced co-ordinated action to cut interest rates by 50 basis points and the Fed announced a Commercial Paper Funding Facility, which will purchase commercial paper directly from companies to help restore liquidity).

Fund Review

Despite the recent disruption in global fixed income markets, the Western Asset U.S. Money Market Fund has continued to produce steady returns. Indeed, the Fund gained 0.49%¹ in US dollar terms over the third quarter, compared to a dollar gain of 0.39% recorded by its benchmark, the Citigroup 1 Month US Treasury Bill Index. It has also outperformed its benchmark by 0.88% over the last 12 months.

The Fund is invested in high quality securities and is well diversified. As of 30 September 2008, 55% of the Fund was held in securities such as Certificates of Deposit (CDs) and term deposits. A further 33% was held in tier one commercial paper (CP), largely issued by highly rated globally diversified banks rather than domestically focused US banks. Just over 7% of the portfolio is held in discount notes issued by government-backed agencies, such as Freddie Mac and Fannie Mae, which were recently put into conservatorship by the US Treasury and the Federal Housing Finance Agency (FHFA). The Fund's exposure to asset-backed securities is 0.4% of the portfolio.

Outlook

Although this Fund will not be protected by the US government's provision to insure money-market mutual fund holdings, as it is an Irish-domiciled fund, the manager believes the high quality and well diversified nature of the portfolio should continue to serve it well going forward. The manager believes the successful implementation of the TARP, along with the various other measures specifically geared towards providing support and liquidity to money market funds, should contribute to better liquidity for the general markets going forward.

To conclude, Legg Mason is committed to the soundness of its funds and to promoting the interests of all investors.

The Fund is managed by Western Asset Management

¹ Class A Distr. (D) US Dollar Shares.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

The value of an investment in the Fund, in contrast to a deposit, may fluctuate.

Western Asset U.S. Money Market Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | 3.10% | 4.67% | 4.06% | 1.54% | NA | NA | 14.30% |
| Benchmark ² (USD) | 2.22% | 4.90% | 4.39% | 2.45% | NA | NA | 15.41% |

Performance Inception Date: 27/02/2004.

¹ Western Asset U.S. Money Market Fund (Class A Distr. (D))

² Citigroup 1 Month U.S. Treasury Bill Index.

Source for performance figures - Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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November 2008

Ref: 4004

Western Asset Diversified Strategic Income Bond Fund

Key Points

- The Fund posted a return of -6.08%¹ in US dollar terms over the third quarter. It lagged its benchmark, the Citigroup 1 Month US Treasury Bill Index, which rose by 0.39% over the period.
- The Fund's positions in subordinated financials and global high yield corporate bonds were the main detractors from performance.
- Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term.
- The manager continues to see value in non-government bonds and believes investors should remain committed to these sectors of the bond market.

Market Review

Financial conditions worsened over the quarter, resulting in a climactic series of events in September that will be the focus of debate for decades. The government-sponsored entities (GSEs) Freddie Mac and Fannie Mae were nationalised to provide stability to the mortgage market. In the banks sector, Lehman Brothers failed, Merrill Lynch was taken over by Bank of America, Wachovia was taken over by Wells Fargo and JP Morgan Chase absorbed Washington Mutual. In addition, investment banks Morgan Stanley and Goldman Sachs converted to bank holding companies. In addition, the Federal Reserve (Fed) also announced a bail out of insurer American International Group (AIG). The ongoing financial crisis also took its toll on European banks forcing a number of European governments to provide support.

Despite a variety of measures implemented by central banks and governments around the globe, credit markets ended the period at a virtual standstill. Policy efforts by the US government and the Fed included a \$50 billion provision to insure money-market mutual fund holdings, expanded lending facilities for commercial banks and put in place curbs on short selling of financial stocks. In its most dramatic move to date, the US Congress announced plans for a \$700 billion programme (TARP – Troubled Asset Relief Program) to purchase illiquid mortgage-backed securities and other assets from banks' balance sheets (which was approved in early October). The Fed joined a number of other major central banks in injecting additional liquidity into global financial markets. (As market conditions deteriorated in early October, the Fed and a number of other central banks announced co-ordinated action to cut interest rates by 50 basis points). In Europe, while EU-wide fiscal initiatives had initially been slow, individual member states are now aggressively taking independent counteractive action, including deposit guarantees and coordinated government recapitalisation of troubled institutions.

Mortgages / TIPS

Mortgage-backed securities (MBS) broke their correlation with the corporate sector and began outperforming Treasuries once the GSEs Fannie Mae and Freddie Mac were nationalised in early September. MBS returned 2.0% over the quarter. US Treasury Inflation-Protected Securities (TIPS) suffered as oil prices plunged and investors' desire for inflation protection faded. TIPS underperformed conventional Treasuries, with returns of -3.6% and 2.4% respectively.

Investment grade

Risk aversion soared during the quarter and spreads on investment grade corporate bonds reached record wide levels, as investors sought refuge in safer government bonds. Financials were hit particularly hard following a wave of failures. On a regional basis, the eurozone outperformed the UK and the US in local currency terms with returns of -2.1%, -3.9% and -7.5% respectively.

High yield

After outperforming all the other major fixed income asset classes and most equity markets in the second quarter, global high yield bonds came under severe pressure during the third quarter, with the US market recording its worst quarterly performance on record. Spreads widened to levels not seen since the scandals surrounding Enron and Worldcom earlier in the decade. The asset class was the weakest performer within fixed income in all the major regions, with total returns ranging from -9.2% to -10.8% in local currency terms.

Foreign government bonds

Peripheral market returns were mixed to slightly positive, with Hungarian and Mexican government bonds gaining slightly. In general, inflation fears abated on easing commodity price inflation.

¹ Class A Distr. (D) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Western Asset Diversified Strategic Income Bond Fund

Fund Review

The Western Asset Diversified Strategic Income Bond Fund posted a return of -6.08%¹ in US dollars over the third quarter, lagging its benchmark, the Citigroup 1 Month US Treasury Bill Index, which rose by 0.39% over the same period. The Fund also lagged its sector, the Morningstar Offshore Fixed Income Global USD Based, which returned -4.39%².

During the quarter, the Fund's exposures to subordinated financials and global high yield corporate bonds were the main detractors from performance.

Portfolio activity

During the quarter, the manager reduced the Fund's exposure to US government bonds following the massive rally in the market. The manager maintained its exposure to MBS (around 37%), to investment grade corporate bonds (around 20%) and to high yield corporate bonds (around 30%). Within investment grade corporates, the manager has a focus on European subordinated financials (with an allocation of around 8%). In currencies, the manager maintained its exposure to the Japanese yen, which is held as a hedge against spikes in risk aversion and the fund's exposure in the non-government sectors. Meanwhile, it added exposure to the Australian dollar.

Outlook

Summary

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. The manager continues to believe that recently announced actions (and any forthcoming actions) should be sufficient to prevent financial markets strains from deep dislocations in the global economy. Although the manager does expect a mild recession across much of Continental Europe and in the UK, and a recession is possible in the US, it believes that many of the developing economies should continue to post positive real growth into 2009.

For the moment, however, bond markets remain driven by financial market tensions rather than indications from economic data. Whether or not a recession will occur is of secondary significance against this backdrop. Rather than focusing on near-term economic developments, the manager believes investors should focus on developments over the medium to long term. Assuming that governments' and central banks' policy response succeeds in restoring the functioning of financial markets, trust in the financial system will eventually recover. At that point, the significant discounts at which the non-government sectors are currently trading should moderate and pricing should once again reflect fundamentals, such as the underlying probability of defaults.

The manager continues to see value in non-government bonds and believes investors should remain committed to these sectors of the bond market. Until fundamentals show a trend of improvement, the manager believes it prudent to remain well diversified, to maintain an allocation to government bonds and to add risk selectively and cautiously.

Mortgages

The manager believes the MBS market continues to look attractively priced. Given the recent government backing, risk premiums should narrow over time. It aims to maintain its exposure to MBS in the 35-40% range.

Investment grade corporates

Although the manager expects markets to remain volatile, it believes valuations remain attractive as these reflect a too pessimistic view on default rates. In addition, the magnitude of government support and capital injections have been very supportive of financials in particular, and the manager would expect performance to improve as liquidity returns to financial markets and uncertainty over the quality of assets held by financials abates. The manager aims to hold an exposure of about 20%, including an allocation of around 8% to subordinated financials.

High yield bonds

While the manager sees weakening financial metrics in many industries, it does not believe that the fundamental credit backdrop is as weak as market pricing implies. Although default rates are rising from the cyclical low reached in November 2007, the market is pricing in an elevated level of default rates over the next five years, which the manager thinks is unlikely to be reached and sustained. The manager aims to have an allocation in the 25-30% range.

¹ Class A Distr. (D) US Dollar Shares.

² **Source for sector median performance** – Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Western Asset Diversified Strategic Income Bond Fund

Government bonds

The manager continues to favour slightly extended positions in government bond markets outside of Japan, as a hedge against its positions in the non-government sectors. It also believes selective peripheral markets look attractive. In currencies, the manager will continue to hold an allocation to the Japanese yen as a hedge against risk aversion.

This Fund is managed by Western Asset Management

Western Asset Diversified Strategic Income Bond Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -9.89% | 4.78% | 3.52% | 5.00% | NA | NA | 3.32% |
| Benchmark ² (USD) | 2.22% | 4.90% | 4.39% | 2.45% | NA | NA | 15.41% |

Performance Inception Date: 27/02/2004.

¹ Western Asset Diversified Strategic Income Bond Fund (Class A Distr. (D)).

² Citigroup 1 Month U.S. Treasury Bill Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

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November 2008

Ref: 4015

Batterymarch International Large Cap Fund

Market Review

The third quarter was a period without precedent in modern financial markets, marked by contracting credit markets, liquidity shocks, investor de-leveraging, the failure or rescue of a number of well-known financial firms, and attempts by governments to regulate investment practices and mitigate damage. These events fostered investor behaviour driven by sentiment ranging from uncertainty to panic.

The investment manager's stock selection model began the quarter with positive performance as international markets were led by fundamentals. However, the model's performance reverted sharply after July 15th when global markets reacted to US government interventions to prop up its financial sector. At around the same time, inflation fears gave way to lowered economic growth forecasts by Japan and other countries.

The resulting series of stock reversals over the following months particularly affected securities across regions within the materials, industrials and financial sectors. The swings in region and sector returns compared to the second quarter were in some cases as large as 40% to 55%.

Fund Review

Against this backdrop, the Batterymarch International Large Cap Fund fell by 23.02%¹ in US dollar terms over the third quarter, while its benchmark, the MSCI EAFE Net Dividends Index, recorded a dollar decline of 20.56%.

Stock selection detracted from the Fund's relative performance over the quarter, most notably in continental Europe and Japan. Stock selection in the European materials sector was the largest single detractor, and selection within both Europe and Japan in the industrials and financial sectors was also particularly weak. On the positive side, stock selection in the Australia-New Zealand-Canada grouping was a beneficial influence on the Fund's relative performance. Turning to the manager's overall region and sector asset allocation strategy, this also proved beneficial to the Fund's performance.

At the end of the quarter, the Fund remained broadly diversified across regions and sectors, and fully invested in what the manager believes are high-quality stocks that rank attractively relative to their peers across the dimensions of its stock selection model. Regional allocations include exposure to emerging markets, while the portfolio was most underweight in Japan. At the sector level, the Fund was most overweight in energy and most underweight in banks.

The manager also believes that the characteristics of the portfolio continue to compare favourably to those of its benchmark. At the end of the quarter, for example, the Fund traded at a future 12-month price/earnings (P/E) multiple of 8.5x compared with 9.4x for the MSCI EAFE Index, with a two-year earnings per share (EPS) growth forecast of 11.0% compared with 10.5%, respectively.

Outlook

The Fund's investment manager remains committed to the belief that over the long-term, fundamentals remain the key driver of returns. However, it anticipates that in the short term, markets may continue to be driven by headlines, emotions and government interventions. Because of the unprecedented level of government intervention, and uncertainty regarding future government action, the manager continues to closely monitor the levels of risk within the Fund as indicated by its investment process.

This Fund is managed by Batterymarch Financial Management

¹ Class A Distr. (A) US Dollar Shares.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

Batterymarch International Large Cap Fund

Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -33.91% | 25.92% | 15.38% | 19.85% | 19.95% | 38.04% | 29.25% |
| Benchmark ² (USD) | -30.50% | 24.86% | 19.16% | 25.79% | 22.08% | 58.80% | 61.97% |

Performance Inception Date: 12/10/2001. Batterymarch Financial Management took over responsibility for the fund on 01 November 2006. Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons International Large Cap Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information. *

¹ Batterymarch International Large Cap Fund (Class A Distr. (A)).

² MSCI EAFE Net Dividends Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

*The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.90% in comparison to the predecessor fund of 1.52% – there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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GC Global Equity Fund

Prior to 21 April 2008 the GC Global Equity Fund was known as the Brandywine Global Equity Fund.

Market Review

Uncertainty and fear governed the global equity markets during the third quarter of 2008. Not surprisingly – as the credit crisis deepened – investors shuddered, market volatility soared, and the equity markets sold off precipitously. Key triggers for this unprecedented period included unstable credit markets, fears of a global economic slowdown, and the need for a financial bailout and government policy response in the US and some countries in Europe.

The MSCI World index was down -11.39% in local terms and -15.25% in US dollar terms. Country markets were negative across the board, with major indices in Europe reporting significant declines in local terms: Belgium -23.53%; United Kingdom -11.76%; and Italy -12.72%. In Asia, major country indices reported declines as reflected by Japan -17.52%, Singapore -18.12%, and Hong Kong -23.26%, respectively. On a relative basis, the US market outperformed the EAFE markets as the S&P 500 Index returned -8.37% versus -20.56% for the MSCI EAFE Index in US dollar terms. Performance in emerging markets was also dismal, with the MSCI Emerging Markets (net) Index reporting -20.87% in local terms.

From a global perspective, all sectors reflected significant negative performance over the quarter. From a style perspective, value continued to outperform growth on a relative basis across all capitalisations, as measured by the Russell indices.

Fund Review

Against this backdrop, the GC Global Equity Fund fell by 13.21%¹ in US dollar terms over the third quarter, while its benchmark, the MSCI World Net Dividends Index, recorded a dollar decline of 15.25%.

Despite the crisis in the financial markets, the manager says that its adherence to its disciplined investment process has allowed it to avoid owning any securities connected with the company failures that have been showcased in the media. It strives to build in a margin of safety and avoid purchasing the stocks of companies with an imbalance of risk and reward. As markets 'normalise' and securities once again have a relationship to underlying fundamentals, it believes that the portfolio will be well positioned to capture potential upside. The manager adds that the market dislocation has created a near-term opportunity to build meaningful long-term positions in quality companies at very low valuations. Accordingly, it is buying into the downturns, with a focus on financial, consumer discretionary, healthcare and technology companies. It is confident that it has positioned the portfolio to take advantage of opportunities and believes that investors who stay the course will benefit going forward.

Outlook

While the Fund's manager does not believe the credit crisis is over – given that there may be more global write-offs – it thinks the process of capitulation and healing has begun. Stronger firms are buying weaker ones. The US Treasury and the Federal Reserve initiated actions intended to stabilise the financial markets and banking system and can be expected to continue in these efforts until the credit crunch is resolved and markets function properly. Interest rates are falling around the world as inflation expectations fade. The US current account deficit that flooded the world with dollars is heading lower, helping to correct imbalances in currency values and speculative capital flows. Commodity prices are moderating, taking pressure off of consumers around the world, especially in the poorest countries.

The trend over the summer reflected a marked reversal for commodities and the super-cycle stocks (in other words those enjoying a prolonged bull market) that had been the underpinning of a narrow momentum market. The period was characterised by expanding global liquidity, surging emerging markets and a raging commodity boom. The manager believes this period is over. For the time being, both operating leverage in cyclical names and large productivity gains seem to be fading or are already recognised by the market. The manager is avoiding cyclical companies that trade with what it views as high multiples and high expectations. It believes earnings expectations have been unrealistically high and anticipates continued downwards revisions as we move into the final part of the year. In short, it remains very concerned about the high level of profit expectations.

This Fund is managed by Global Currents Investment Management²

¹ Class A Distr. (A) US Dollar Shares.

² Effective 3 June 2008, Global Currents Investment Management, LLC ("GCIM") succeeded Brandywine Global Investment Management, LLC ("Brandywine") as sub-investment manager of this Fund. Both entities are wholly owned subsidiaries of Legg Mason, Inc. The key global equity investment personnel managing this Fund within Brandywine have transitioned to GCIM and continue managing the Fund following the succession.

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Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -27.38% | 14.57% | NA | NA | NA | NA | -16.01% |
| Benchmark ² (USD) | -26.05% | 21.09% | NA | NA | NA | NA | -9.80% |

Performance Inception Date: 01/09/2006.

¹ GC Global Equity Fund (Class A Distr. (A)).

² MSCI World Net Dividends Index.

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November 2008

Ref: 4022

Western Asset Asian Opportunities Fund

Key Points

- The Western Asset Asian Opportunities Fund was launched on 12 June 2008¹.
- In terms of positioning, the manager holds overweight duration positions in many local government bond markets, as it expects central banks to reverse some of the previous rate hikes. In currencies, its largest holding is in the Chinese yuan. The Fund also has an exposure to corporate bonds.
- Although the slowdown in the major global economies is likely to impact Asian countries, economic growth is still likely to be significantly higher than in the US, Europe and Japan.
- Financial systems in Asia are healthy, foreign reserves are high and government finances are being well managed. Therefore the manager remains positive on Asian currencies in the medium term.

Market Review

All Asian bond markets generated positive returns in local currency terms over the third quarter, although currency weakness versus the US dollar eroded returns in US dollar terms.

Over the period, investors shifted their focus from fears over inflation to concerns that weaker economic conditions in the US would reduce growth in Asia. Although some Asian central banks continued to increase interest rates over the quarter, slowing growth in a number of countries, lower inflation forecasts and reduced expectations of further interest rate rises all contributed to the positive performance of Asian government bonds. Thailand's local bond market was the strongest performer, while Malaysia performed worst.

Asian currency markets were affected by a stronger US dollar, with the Korean won bearing the brunt of the relative weakness of Asian currencies. A number of Asian central banks intervened to slow the decline in their currencies.

In US dollar denominated debt markets, the credit concerns affecting the rest of the world had a significant impact on Asian bonds, especially as the financial crisis in the US and Europe accelerated during September. The crisis resulted in a climactic series of events in the US and Europe, with numerous bank failures forcing the respective governments and central banks to provide support. As general risk aversion surged in global bond markets, the spread between Asian government bonds and US Treasuries widened in most countries. Investment grade and high yield corporate bonds also came under severe pressure.

Fund Review

The Western Asset Asian Opportunities Fund was launched on 12 June 2008. Performance does not appear in this Fund update due to regulations stipulating that performance figures cannot be shown until the Fund has been active for one year.

In terms of portfolio positioning, at the end of September the manager held longer duration positions than the benchmark in many local government bond markets, including Korea, Hong Kong and India. In terms of currencies, the manager holds select overweight positions in currencies it expects to appreciate. Its largest holding is in the Chinese yuan and it also holds overweight positions in the Indonesian rupiah and the Singapore dollar. The manager also increased its exposure to US dollar-denominated bonds over the quarter, by increasing its holdings in investment grade and high yield corporate bonds, as valuations reached attractive levels.

Outlook

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. The manager continues to believe that recently announced actions (together with any forthcoming actions) should be sufficient to prevent financial market strains from deep dislocations in the global economy. However, the manager believes the major global economies may fall into a synchronised recession. While domestic growth in Asian countries may provide some cushion against adverse global trends, the region is likely to continue to be negatively affected by weakness in the major global economies. The manager believes many Asian central banks are likely to end their policy tightening measures and start to reverse previous rate hikes, which would be positive for government bonds.

The manager's outlook for currencies is mixed. Some countries are likely to allow their currencies to fall in order to dampen the adverse impact of the slowing global economy on their exporters. This would negatively impact fund performance in US dollar terms. However, the drop in commodity prices would benefit the largest Asian economies, such as China, India and Korea, as these are large importers of energy and commodities. Even if growth slows, overall Asian economic growth is still likely to be significantly higher than that of the US, Europe and Japan. Financial systems in Asia are healthy, foreign reserves are high and government finances are being well managed. Therefore the manager remains positive on Asian currencies in the medium term.

This Fund is managed by Western Asset Management

¹ There are no performance figures in this Fund update due to regulations stipulating that performance figures cannot be shown until the Fund has been active for one year. If you require further information, please contact your financial adviser.

Western Asset Asian Opportunities Fund

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Batterymarch 130/30 Global Equity Fund

Market Review

In a period without precedent in global financial markets, the third quarter of 2008 was marked by contracting credit markets, liquidity shocks, investor de-leveraging, the failure or rescue of a number of well-known financial firms, and attempts by governments to regulate investment practices and mitigate damage. These events fostered investor behaviour that was driven by sentiment ranging from uncertainty to panic.

The investment manager's stock selection model began the quarter with positive performance as global markets were led by fundamentals. However, the model's performance reversed sharply after 15 July, when global markets reacted to the US Federal Reserve's proposal to explicitly back Fannie Mae and Freddie Mac, and the Security and Exchange Commission's (SEC) restrictions on short-selling. Compounding the financial sector woes was the mid-July rapid decline in oil (from a high of \$147) and commodity prices as inflation fears gave way to lowered growth forecasts by Japan and other markets. The resulting series of stock reversals over the following months particularly affected securities across regions within the materials, industrials and financial sectors. Sector return swings compared to the second quarter were in some cases over 45%.

Fund Review

The Batterymarch 130/30 Global Equity Fund was launched at the end of June 2008. During the third quarter the investment manager notes that the restriction on short selling financial and other stocks that originated in the US quickly became a global policy initiative. As countries instituted these measures, the manager saw an adverse effect on the Fund's investment strategy and believes that the restrictions impacted the normal supply and demand mechanism that determines stock prices (the price discovery process). It believes this exacerbated the reliance on sentiment over fundamentals in short-term valuation. In addition, it believes that the restrictions likely put pressure on leveraged managers to continue unwinding their portfolios. There was evidence that leveraged funds were selling high-quality, liquid names in an attempt to raise cash to meet redemptions or lower leverage ratios. The manager also notes that short covering rallies in stocks with questionable fundamentals were readily observable as this process accelerated during the quarter.

The Fund's stock selection during the third quarter was negatively impacted by this environment. Within the Fund's stock selection strategy, the main detractors from its performance were in its long positions in the industrials and materials sectors. Short positions also detracted modestly. In addition, the Fund's exposure to emerging markets hurt its performance.

Outlook

The investment manager remains committed to the belief that over the long term, fundamental metrics remain the key driver of returns. However, it anticipates that in the short term, markets may continue to be driven by headlines, emotions and government interventions. Because of the unprecedented level of government intervention and uncertainty regarding future government action, the manager continues to closely monitor the levels of risk within the Fund's portfolio and maintains neutrality in terms of sector, beta, size and dollars.

The Fund remains broadly diversified and fully invested in high-quality stocks that rank attractively relative to their peers across the dimensions of the manager's stock selection model. The manager believes that the characteristics of the portfolio compare favourably to those of its benchmark, with a lower 12-month forward price/earnings (P/E) ratio of 8.3x compared with 10.5x for the benchmark, and a two-year forecast earnings growth rate in line with the benchmark at 11.9%.

This Fund is managed by Batterymarch Financial Management

Batterymarch 130/30 Global Equity Fund

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Legg Mason Global Funds plc

Western Asset Q3 2008 Emerging Market Fixed Income Strategies

Key Points

- The investment manager's emerging market strategies generated negative absolute returns and lagged their benchmarks over the third quarter.
- Emerging market debt performance continued to be driven by investors' general appetite for risk rather than country specific factors relating to emerging countries.
- The manager continues to believe that within external US dollar denominated debt, corporate issues offer more attractive opportunities than government bonds.
- When taking local currency exposure, the manager looks for countries with ample reserves, a strong balance of payments and credible central banks. Despite recent weakness in emerging market currencies, the manager believes that the longer-term trend remains in favour of strengthening currencies.

Market Review

Emerging market debt performance continued to be driven by investors' general appetite for risk rather than country specific factors relating to emerging countries. Although emerging market fundamentals remained positive, spreads of emerging market debt over US Treasuries widened and emerging market currencies plunged as the financial crisis in the US and Europe escalated in September. Uncertainty over the fate of the global financial system and prospects for global economic growth resulted in a surge in risk aversion and led investors to seek safety in US dollar assets.

Spreads of US dollar-denominated government bonds issued by emerging markets widened to their highest levels since mid-2004. Corporate bonds fared worse than government bonds over the quarter. Meanwhile, local currency debt performed well, excluding the negative impact of currency depreciation, as inflation pressures declined and demand from local market participants held up better than that of foreign investors. (Spreads on all segments widened further to record highs in early October as the global financial crisis intensified.)

US dollar-denominated bonds generated a total return of -4.6%, while local currency debt returned 5.8% in local currency terms, although as previously mentioned, this became a negative figure once currency depreciation versus the US dollar was taken into account.

Strategy*

The investment manager's emerging market strategies generated negative absolute returns and lagged their benchmarks over the third quarter. For those strategies investing in US dollar-denominated (external) debt, sovereign debt generally outperformed the external corporate exposure over the period. For those strategies investing in local currency-denominated (local) debt, returns were mixed.

Outlook

While the magnitude of the current financial crisis is unprecedented, so also has been the policy response. The manager continues to believe that recently announced actions (and any forthcoming actions) should be sufficient to prevent financial markets strains from deep dislocations in the global economy. Although the manager does expect a mild recession across much of Continental Europe and in the UK, and a recession is possible in the US, it believes that the emerging economies should continue to post positive real growth in 2009.

Risk premiums on emerging market debt are not likely to return to 'pre-crisis' levels anytime soon, but long-term fundamentals continue to improve in emerging markets. Greater central bank credibility and anchored inflation expectations have had an influence on longer-term growth prospects. The manager believes the recent weakness in a number of emerging market currencies is a cyclical phenomenon and that the longer-term trend remains in favour of strengthening currencies.

The manager continues to believe that within external US dollar denominated debt, corporate issues offer more attractive opportunities than government bonds. Its focus is on those companies that will play an ongoing role in expanding capacity and relieving bottlenecks during the growth process of the emerging economies. Within local currency markets, the manager looks for countries with ample reserves, a strong balance of payments and credible central banks. The manager continues to focus on those countries with high real interest rates and likely currency appreciation.

These strategies are managed by Western Asset Management

*Please note not all strategies have allocations to the sub-sectors covered in this commentary. Please see relevant fund factsheet for individual allocations.

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The strategies are representative of those employed by the Emerging Markets Fixed Income sub-funds within Legg Mason Global Funds plc (listed below).

Western Asset Emerging Markets Bond Fund

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Outlook

While the Fund's manager does not believe the credit crisis is over – given that there may be more global write-offs – it thinks the process of capitulation and healing has begun. Stronger firms are buying weaker ones. The US Treasury and the Federal Reserve initiated actions intended to stabilise the financial markets and banking system and can be expected to continue in these efforts until the credit crunch is resolved and markets function properly. Interest rates are falling around the world as inflation expectations fade. The US current account deficit that flooded the world with dollars is heading lower, helping to correct imbalances in currency values and speculative capital flows. Commodity prices are moderating, taking pressure off of consumers around the world, especially in the poorest countries.

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This Fund is managed by Global Currents Investment Management²

¹ Class A Distr. (A) US Dollar Shares.

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Important Information

| | Rolling 12 Month Performance to End of Last Quarter | | | | | Cumulative Performance | |
|-------------------------------|---|----------------------|----------------------|----------------------|----------------------|------------------------|--------------------------------|
| | 30.09.07 30.09.08 | 30.09.06 30.09.07 | 30.09.05 30.09.06 | 30.09.04 30.09.05 | 30.09.03 30.09.04 | 5 Years | Since Performance Inception |
| Fund¹ (USD) | -27.38% | 14.57% | NA | NA | NA | NA | -16.01% |
| Benchmark ² (USD) | -26.05% | 21.09% | NA | NA | NA | NA | -9.80% |

Performance Inception Date: 01/09/2006.

¹ GC Global Equity Fund (Class A Distr. (A)).

² MSCI World Net Dividends Index.

Source for performance figures – Legg Mason. Performance is calculated on a NAV to NAV basis. Performance calculations include reinvested dividends, without deduction of withholding tax, and the deduction of the Total Expense Ratio over the calculated period. Sales charges, taxes and other locally applied costs to be paid by an investor have not been deducted.

This is a sub-fund (Fund) of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus – please refer to the Simplified Prospectus and Prospectus documentation, which describe the full objective and risk factors associated with this Fund. Before investing you should carefully read the Prospectus. Copies of prospectuses, simplified prospectus, semi-annual and annual reports, if published, may be obtained at: PNC Global Investment Servicing (Europe) Limited, Riverside Two, Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland.

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