

**Legg Mason Investments**  
**Sub-fund of Irish domiciled open-end investment company**

**Report Issued:** February 2009

**Peer Group:**

US Mainstream Equities

**Fund Manager/Adviser:**

Bill Miller (since launch)

**Location:**

Baltimore

**Launch Date:** March 1998

**Fund Size (September 2008):**

US\$563m

**Group Contact No:**

+353 539 149 999

**Website:**

www.leggmason.co.uk

**S&P ID Number:** OS309343

**Share class screened:**

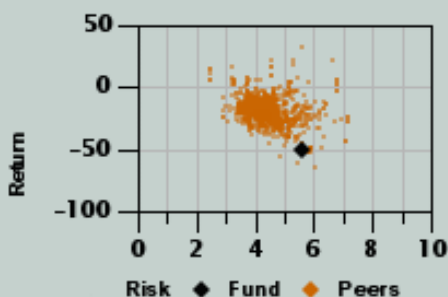
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### INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

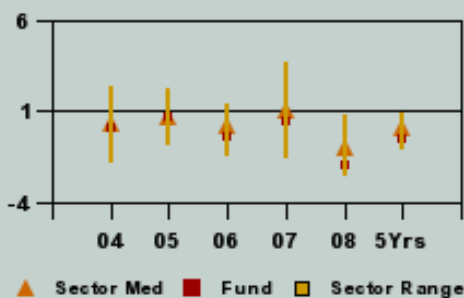
### RISK RETURN (STD DEVIATION) OVER 5 YEARS



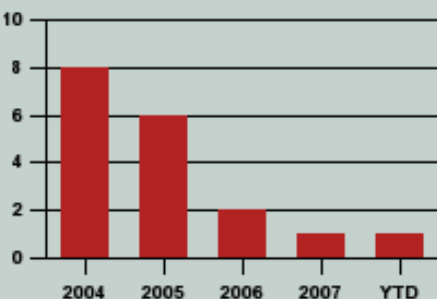
### 3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	High	-39.5
Volatility	High	15.5
Correlation	High	0.9
Beta	High	1.4

### SHARPE RATIO VS PEER GROUP



### CALENDAR YEAR DECILE RANKS



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

Please see page 2 for required research analyst certification disclosure.

Further information on S&P's fund coverage can be found at

[www.funds.standardandpoors.com](http://www.funds.standardandpoors.com)

All statistical data on this report has been run to 29/08/2008 on NAV to NAV basis, with gross income reinvested, in US Dollars.

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

Bill Miller built a reputation as one of the most gifted value managers in America and received accolades from many investment commentators, including us, for his unrivalled period of 15 years' outperformance of the S&P 500 index between 1991 and 2005. Recent performance has gained far fewer plaudits, however, as following dramatic underperformance in both 2006 and 2007 and in 2008 to September, the fund now languishes in the bottom decile of our peer group cumulatively over both three and five years.

We recognise the style bias of the fund can lead to lengthy periods of relative underperformance, as happened between 1990 and 1992, and that this can lead to a rapid bounce back as momentum builds in good value stocks. However, we are concerned that

Miller did not protect capital either in 2007 or in 2008 to September. An absolute loss of almost 30% in the first eight months of 2008 is a genuine cause for concern and puts further pressure on the fund's rating, which was reduced from AAA last year.

We acknowledge the team at Legg Mason identified the dangers of last year's credit crunch and positioned the portfolio in companies it felt had strong fundamentals, with net cash, good dividend yields and market leading positions. So far none of this has worked and, despite our long-standing regard for Bill Miller and for Mary Chris Gay, who implements this strategy on UK- and European-domiciled funds, we reluctantly downgrade the fund to an S&P A rating.

### FACT FILE

**Group:** Legg Mason Investments is part of Legg Mason Inc, a global asset management company with a history stretching to 1899, and listed on the NYSE since 1983. After acquiring the asset management part of Citigroup in December 2005, Legg Mason became the fifth-largest money manager in the US.

**Team:** Legg Mason's US equities team currently comprises nine managers and 17 analysts, together with a head of strategy, co-heads of research, and a market intelligence team of nine.

**Fund Manager:** Miller is CEO and CIO of Legg Mason Capital Management. He has 27 years'

investment experience, all at Legg Mason. He is backed by Mary Chris Gay, who has 20 years' experience with the company.

**Style:** Miller's approach is long term and value oriented. The portfolio is concentrated in 30-50 stocks and may deviate significantly from the S&P 500 index.

**Performance:** Over the five years to 29/08/2008 the fund has returned -9.2%, compared with 30.4% for the sector median and 39.7% for the index, ranking 993/1001.

### FUND MANAGER & TEAM

Miller is the key decision maker on the fund. He has been sole manager on the value strategy since 1990 and was co-manager from 1982.

He and Mary Chris Gay are supported by a team of 17 analysts led by Randy Befumo. This includes six regional intelligence analysts who work directly for fund managers, on tasks given to them. They do not make recommendations but concentrate on understanding the fundamentals and producing a balanced bull/bear case to help the portfolio manager make a decision. In addition, there is a market intelligence team of nine that was established to distribute timely economic, market and stock reports and significant stock alerts to the group, freeing up analyst time.

Bill Miller - president - economics (Washington and Lee University), CFA, was treasurer of J.E. Baker & Co, joining Legg Mason as research director in 1981. He co-managed the Value Trust from launch in 1982, taking overall control of the fund management area in 1990.

## PORTFOLIO CHARACTERISTICS

No. of holdings	30
Turnover ratio (%)	N/A
% in top 10	52

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

	%
Amazon.com *	7.5
The AES Corporation *	7.5
Aetna *	6.2
UnitedHealth *	4.9
Citigroup	4.5
eBay *	4.5
JPMorgan Chase *	4.4
Sears *	4.4
General Electric Co.	4.2
Hewlett-Packard	4.1

\* In top 10 holdings a year ago

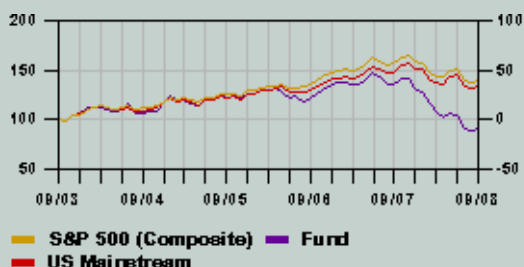
## ALLOCATION BREAKDOWN (01/09/08)

	Fund %
Cash	2.0
Consumer discretionary	21.0
Consumer staples	0.0
Energy	0.0
Financials	20.0
Healthcare	15.0
Industrials	4.0
Information technology	30.0
Materials	1.0
Other	0.0
Telecoms	0.0
Utilities	7.0

## PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	-25.7%	-9.2%
Standard & Poor's Peer Median	7.3%	30.4%
Index**	11.4%	39.7%
Fund Rank	1262/1269	993/1001
Standard Deviation	15.5	-
Relative Standard Deviation	1.3	-
Volatility Adjusted Ranking	1261/1269	-

## CUMULATIVE PERFORMANCE



# LEGG MASON GLOBAL FUNDS PLC LEGG MASON VALUE FUND

Peer Group: US Mainstream Equities



## MANAGEMENT STYLE

The fund is managed with a long-term buy and hold approach to intrinsic value. Stocks are selected bottom-up but portfolio construction aims to diversify earnings drivers. Internal research on momentum and valuation led to a new policy of finding stocks with good intrinsic value in lowly valued sectors to benefit from upward momentum in a recovery period.

Analysts cover only 10-15 stocks each, studying each business in great depth. Intrinsic value is assessed using a variety of valuation approaches, including dividend discount and discounted cashflow models and ratio analysis.

Purchases typically trade at a 30-50% discount to long-term intrinsic value. The portfolio is diversified across 30-50 stocks and weightings are primarily driven by the discount to intrinsic value. Risk is assessed primarily at the stock level and may lead to significant deviations from the benchmark S&P 500 at both stock and sector level.

Investments will range from traditional value/restructuring ideas to high growth stocks where the market is underestimating their potential.

Turnover is low, with minimal topping and tailing on valuation grounds.

## PORTFOLIO REVIEW

Turnover in the last year was higher than average (24% against 15%) reflecting changing market conditions. Ahead of the credit crunch, valuation spreads were low so investors were not being paid to take risk. This led to the portfolio expanding to 48 names before a valuation gap opened at the end of 2007. Stocks such as Exxon and Suncor, which were bought earlier in the year as an insurance against a further oil price rise, were sold to fund purchases of good value stocks.

In spring 2008, Miller recognised the market was undergoing a collateral crisis and cut 18 names from the portfolio including GM, and financials such as Wachovia and Washington Mutual. In a move up the quality spectrum he bought AIG, which appeared fundamentally sound, along with Citigroup and Bank of America. At review the portfolio was overweight consumer discretionary, IT and financials and focused on finding stocks with market leading positions, net cash, positive cashflow and high yields.

## PERFORMANCE ANALYSIS (SEPTEMBER 2008)

Despite a strong long-term record and an unrivalled period of outperformance between 1991 and 2005, the fund now languishes in the bottom decile of our peer group over both three and five years cumulatively.

Detractors from return were the same stocks over both three years to September and in 2008 to date. By contrast, of the top contributors only two (JP Morgan and IBM) were common over both periods.

The long-term intrinsic value approach has led to periods of lengthy underperformance before, notably between 1990 and 1992 but, relative to our peer group, performance was flat in 2003 to 2005, followed by dramatic underperformance from 2006. Attribution analysis shows that seven of the biggest

Not being invested in energy and materials in strong momentum markets hurt relative performance up to the summer this year. Poor stock selection in all sectors, except industrials and materials, has also hurt performance in 2008 to September.

## DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 29/08/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	11.1	277/1044	4.9	533/1189	5.3	1189/1321	-7.4	1488/1547	-28.7	1693/1696
Index**	10.9		4.9		15.8		5.5		-11.4	
Median	8.8		4.4		12.6		5.9		-12.2	

\*\* S&P 500 (Composite)

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