

Named portfolio manager(s):
Ian Edmonds (since inception)
Peer group: Global Bond Funds in Dollars
Hedged

Location: London
Launch date: February 2004
Fund size (January 2009): US\$63m

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

Standard & Poor's opinion (March 2009)

This fund aims to provide a healthy income stream, while protecting against capital erosion. This combined with Western's deep-value approach, means it invests predominantly in spread sectors. The strategies are broadly similar to those found in the Irish-domiciled Global Multi Strategy Bond fund, but this fund is a shorter duration more concentrated portfolio with a lot less currency risk.

Stephen Walsh has been promoted to CIO from his position as deputy, but Western's fixed income capability remains otherwise relatively stable and well-resourced.

Western began adding beta risk very early in the credit bear market, mainly through subordinated financials (including Tier I) and high yield. Interest rate risk was hedged out using Treasury futures, which rallied as credit fell.

The fund had few places to hide last year as risk aversion affected all swap-related sectors, but suffered from not holding enough short-duration paper. Performance now ranks bottom quartile over three years cumulatively. The fund has lost money in absolute terms and has lagged the benchmark by 640bps annualised (before fees) over the same period, following an extremely difficult 2008. It is roughly flat to the benchmark over 10 years cumulatively.

Top-down strategies aside, the team has also been heavily invested in those sectors worst hit, namely Tier I financials and high yield. It is our opinion that Western have not demonstrated enough flexibility and pragmatism in their investment approach, which we feel could have cushioned the fall in performance. As a result it is Not Rated by S&P.

Fund manager & team

Western Asset Management, based in Pasadena, is owned by Legg Mason. It is a specialist fixed income manager with more than 120 investment professionals managing over \$500bn.

Ian Edmonds - graduate (University College, London), started his career with Bacon & Woodrow. In 1994 he joined Lehman Brothers Global Asset Management, later acquired by Western Asset Management. He covers European high yield markets.

Stephen Walsh - CIO - BS finance (University of Colorado), started his career in 1981 as a portfolio manager at Atlantic Richfield, running limited-duration portfolios, and moved to Security Pacific Investment Managers in 1988. He joined Western in 1991.

Management style

This fund aims to provide a healthy income stream in US dollars while maintaining a reasonable degree of capital stability. It is benchmarked against the Citi 1 month Treasury Bill index, but can take duration risk (usually up to 3.0 years). It invests predominantly in spread sectors, which are diversified between global fixed income, mortgage securities and high yield.

The process is similar to the Western Asset Global Multi Strategy Bond fund and draws on the same team. The global strategy team sets broad top-down themes and individual specialist teams make recommendations on country, sector and security allocation.

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

The global fixed income portion can include local currency debt of any investment grade country, including those formerly considered emerging. Currency risk is often hedged and any unhedged exposure overall is unlikely to breach 10%.

The fund invests in non-US bonds, with sub-investment grade limited to 35%.



Report date March 2009

Investment Style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Performance Statistics

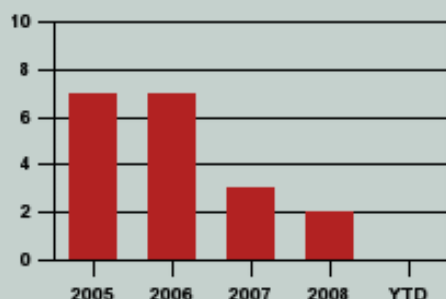
	3 Years
Fund	-12.4%
Standard & Poor's Peer Median	3.2%
Index**	19.0%
Fund Rank	56/64
Volatility Adjusted Ranking	60/64

Note: returns are cumulative

3 Year Risk Characteristics

Maximum Drawdown (%)	Medium	-20.6
Volatility	Low	6.9
Correlation	Low	-0.1
Beta	Low	-0.2

Calendar Year Decile Ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank 9, with tenth decile as rank 1.

Performance Data Source - © 2009 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/12/2008 on NAV to NAV basis, with gross income reinvested, in US Dollars.

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

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



Portfolio & performance analysis (January 2009)

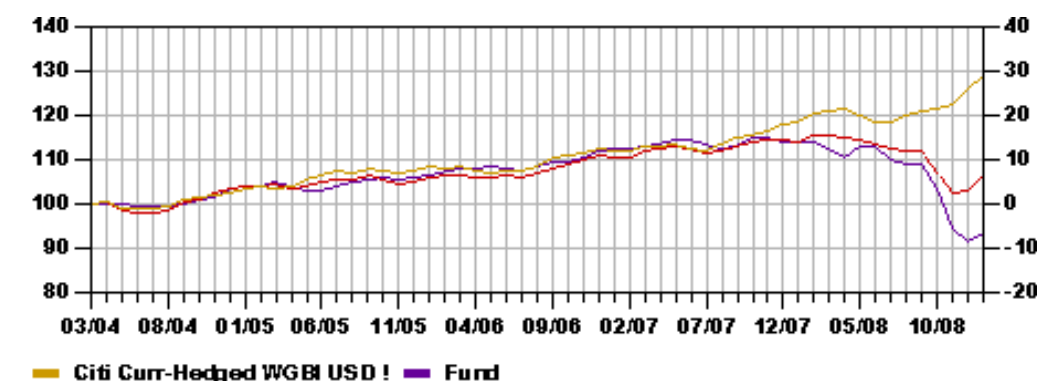
The fund broadly runs the same strategies as Western's Irish-domiciled Global Multi Strategy Bond fund. However, this is a slightly more concentrated version with less currency risk.

Western began adding credit risk in the fourth quarter of 2007 at the expense of Treasuries and other sovereign debt. The team had been wary of LBO risk affecting industrials earlier in the year and maintained their preference for financials during late 2007/early 2008. Within financials, they sought the higher-yielding subordinated issues including tier 1 paper. The manager stopped increasing the exposure to the sector in the first quarter of 2008. More generally, he thinks new issues will represent the best opportunities in corporate credit because they are at a discount to the secondary market.

Duration was 1.6 years at the time of review; most of the fund's interest rate risk has been hedged using Treasury futures. Exposure to TIPS was increased towards the end of 2008 on the view they provided cheap insurance against inflation. Otherwise, more than 90% of the fund was invested in spread sectors. The team had a position in Japanese yen but currency risk overall in the portfolio remains minimal.

Performance ranks bottom quartile over three years cumulatively. Over the same period, the fund has lagged the Citi 1 month Treasury Bill index by 640bps annualised (before fees). In 2008, it was down by almost 18% in absolute terms. Being short Treasury futures and long spread sectors - particularly high yield and Tier I financials - was a bad combination in a climate of risk aversion. The fund's modest exposure to yen had a moderately positive impact. The manager notes that the large net outflows from the fund did not materially affect performance.

Cumulative performance



Discrete Performance (calendar years)

	2005		2006		2007		2008		YTD 31/12/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	2.5	19/59	5.4	22/64	1.3	56/71	-17.9	67/78		
Index**	5.1		3.1		5.7		9.2			
Median	1.2		4.8		3.6		-7.2			

** Citi Curr-Hedged WGBI USD!
Fund Benchmark: Citi 1m T-bill

Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
Ord	5.00	0	1.10	0.00			IE0034202634

Registered for sale

Sources of return (01/01/09)

	Low	Average	High
Portfolio Duration			
Credit Spreads			
Country / Sectors			
Yield Curve Positioning			
Currency Exposure			
Derivatives			

Portfolio characteristics

Effective duration (years)	1.60
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Credit rating breakdown by CTD* (01/01/09)

	Long	Short	Net
AAA	1.33	-0.89	0.44
AA	0.02	0.00	0.02
A	0.25	0.00	0.25
BBB	0.76	0.00	0.76
BB	0.46	0.00	0.46
B & below	0.63	0.00	0.63

Duration breakdown (01/01/09)

	Long	Short	Net
0-3 years	1.06	0.00	1.06
3-5 years	1.55	0.00	1.55
5-10 years	0.00	-1.54	-1.54
10+ years	0.53	0.00	0.53

Asset allocation by CTD (01/01/09)

	Long	Short	Net
Governments/supranationals	0.00	-0.89	-0.89
Corporates	1.57	0.00	1.57
ABS/MBS/covered	0.92	0.00	0.92
Emerging market debt	0.00	0.00	0.00

Regional breakdown by CTD* (01/01/09)

	Long	Short	Net	Curr %
North America	0.39	0.00	0.39	98
Europe ex UK	1.02	0.00	1.02	-1
UK	0.19	0.00	0.19	0
Japan	0.00	0.00	0.00	3

* CTD = Contribution to duration. Credit rating exposures are expressed in spread duration terms.

Symbols and Definitions

Long-Only Fund Ratings

AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and performance consistency of the management team and/or approach as compared to funds with similar objectives.

AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Fund-of-Hedge-Fund Ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Absolute Return Fund Ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

All Fund Ratings

NR Funds designated as NR (Not Rated) currently do not meet the requisite performance standards and/or the minimum qualitative criteria.

UR Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

New Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

Bond Fund Volatility Ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprised of the highest quality fixed-income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or liquid securities.

V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

Absolute Return Fund N Ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.

10/14/2008

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