

Peer Group:

US Mainstream Equities
Fund Manager/Adviser:
John Goode (since July 2001)

Location:
San Francisco

Launch Date: May 1988
Fund Size (September 2008):
US\$69m

Group Contact No:

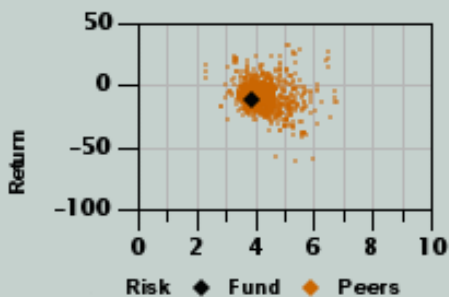
+353 539 149 999
Website:
www.leggmason.co.uk
S&P ID Number: OS356204
Share class screened:
A Ord USD



INVESTMENT STYLE

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

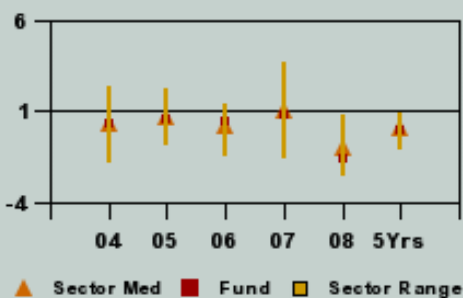
RISK RETURN (STD DEVIATION) OVER 5 YEARS



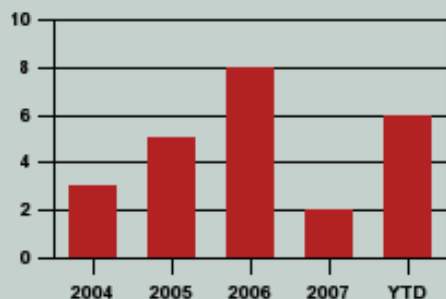
3 YEAR RISK CHARACTERISTICS

Maximum Drawdown (%)	Low	-19.1
Volatility	Medium	9.6
Correlation	High	1.0
Beta	Medium	0.9

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

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)

Legg Mason US Fundamental Value Fund is outsourced to Legg Mason subsidiary Davis Skaggs. It is managed in a flexible value style, which has ranged from deep-value recovery stocks (in 2003) to its present concentration on relative value, according to the conditions prevailing at the time. At present, the manager John Goode emphasises capital preservation over an undaunted contrarian approach.

Goode has run the fund since launch in 1996 and has worked alongside Peter Hable as joint managing director since 1983. They are supported by a team of four analysts who average five to 10 years' experience. Goode and Hable have spoken of enlarging this team, specifically to include a pharma and a technology specialist, but this has not so far come to fruition.

The fund combines Goode's top down, thematic strategy with the team's stock selection and uses quantitative value screens to identify a mix of cash generation and value.

The fund has scope to vary widely from its Russell 3000 benchmark and is free to raise up to 20% in cash if it cannot find value to buy. Despite lower-than-average maximum drawdown, the fund has struggled to find sustained outperformance against either the peer group or the index. Given the amount of risk it is able to take, returns have been middle of the road. Stock disappointments in 2007 leave it in the third quartile over three and five years.

This begins to be a concern, but we recognise the style suffers in highly volatile markets and, given an improving relative trend year to date, the fund's S&P A rating is maintained.

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: Based in San Francisco, the two managers are supported by four analysts of between five and 10 years' experience. The team is responsible for \$13bn, 80% of which is run for Legg Mason.

Fund Manager: Goode is an experienced fund manager, who has over 35 years' experience. He joined Davis Skaggs in 1969 and is now CIO and joint managing director.

Style: The fund is managed in a flexible, value-driven style. Top-down and bottom-up elements are combined to build the portfolio, which at times can show wide deviations from the Russell 3000 index.

Performance: Over the five years to 29/08/2008, the fund has returned 24.9%, compared with 30.7% for the sector median and 39.7% for the index, ranking 725/1101.

FUND MANAGER & TEAM

Davis Skaggs Asset Management is a subsidiary of Legg Mason. Its style is value driven, although not deeply contrarian and it has \$13bn under management. Two senior fund managers, Goode and Hable, have worked together since 1983. They are supported by four analysts and an associate analyst. They continue to look to recruit further research specialists, particularly to cover the pharma and technology sectors.

John Goode - CIO, joint MD - economics, MBA (Stanford University), has over 35 years' investment experience, joining Davis Skaggs in 1969.

Peter Hable - joint MD - economics (Southern Methodist University), MBA (Wharton Business School), joined Davis Skaggs in 1983. He is a senior portfolio manager.

John Rutledge - government (Hamilton College), joined the group in 2000 with seven years' experience.

Paul Tiao - quantitative analyst - legal studies (University of Berkeley), joined the firm in 1991.

PORTFOLIO CHARACTERISTICS

No. of holdings	65
Turnover ratio (%)	N/A
% in top 10	28

TOP 10 HOLDINGS (01/09/08)

	%
JPMorgan Chase *	3.4
Chubb	3.1
Applied Materials *	3.0
Microsoft	2.9
Walmart Stores	2.9
Home Depot	2.8
Novartis AG (ADS)	2.7
Texas Instruments	2.6
Walt Disney *	2.6
State Street	2.5

* In top 10 holdings a year ago

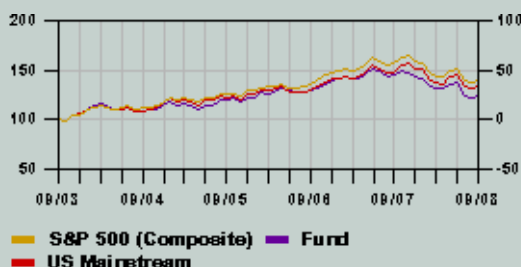
ALLOCATION BREAKDOWN (01/09/08)

	Fund %
Cash	1.0
Consumer discretionary	10.0
Consumer staples	6.0
Energy	11.0
Financials	14.0
Healthcare	12.0
Industrials	19.0
Information technology	21.0
Materials	4.0
Other	0.0
Telecoms	2.0
Utilities	0.0

PERFORMANCE STATISTICS

	3 Years	5 Years
Fund	4.3%	24.9%
Standard & Poor's Peer Median	7.3%	30.7%
Index**	11.4%	39.7%
Fund Rank	910/1402	725/1101
Standard Deviation	9.6	-
Relative Standard Deviation	0.8	-
Volatility Adjusted Ranking	844/1402	-

CUMULATIVE PERFORMANCE



LEGG MASON US FUNDAMENTAL VALUE FUND

Peer Group: US Mainstream Equities



MANAGEMENT STYLE

• Davis Skaggs's investment approach combines a variety of inputs to produce a value-aware portfolio whose concentration depends on its capitalisation tilt. The team combines top-down thematic views with technical and fundamental research as well as using quantitative screens to focus the research effort. Of these various elements, the most important by far is fundamental research.

• Using this as the basis of investment, the team looks to identify the three- to five-year themes that may act as a catalyst to drive undervalued business forward. A multifactor quantitative screen, led by four standard

price metrics (price-to-book, price-to-cashflow, price-to-sales and P/E ratios), helps to define valuation ranges within different industries. It also helps obtain a broad definition of value. Technical analysis is used to assist with timing buy/sell decisions and to confirm changes in relative performance.

• The portfolio is built with reference to the Russell 3000 benchmark, using a flexible definition of value, varying between relative value and deep value, but with a concern to preserve capital. Sector bets may vary between a half and twice the benchmark weight. Stocks are held below 5%.

PORTFOLIO REVIEW

Preparing to face a period of deflation, followed by a period of inflation, the manager continued to shift the portfolio up the cap scale and concentrate holdings in higher-conviction names. However, he also sought to emphasise domestic plays, which kept him out of many of the largest names. This again reduced the number of holdings - down to 65 from 75 a year ago - and the tail of stale minor holdings was mostly eliminated.

At sector level, the fund was invested in the IT sector on a relative-value basis, taking the weighting up from 15% a year ago to its current position of 20%. Within healthcare, pharmaceuticals were also increased. Within financials, insurance was preferred over banks, though JPMorgan remained the top holding. Goode has started nibbling at regional banks (Sinofus) in the expectation that there is likely to be consolidation within the sector.

PERFORMANCE ANALYSIS (SEPTEMBER 2008)

In the past five full calendar years, the fund has had two years of top-quartile performance. These were 2003, as the market recovered from the old bear market, and 2006. However, sustained outperformance has eluded the fund and it now ranks in the third quartile over both five and three years. Underperformance against the Russell 3000 index accelerated, despite useful outperformance between November 2007 and February 2008. 2008 saw modest recovery against the peer group.

In 2007 five stocks were particular disappointments for the fund: Apple, Amazon, Google, Rimage Corp and Motorola, all now dropped from the portfolio. Additionally, the fund's move up the cap scale was not helpful as liquid stocks were hit harder than the small-caps.

2008 to date was better, with stock selection in all but three sectors making a positive contribution. Energy, however, held performance back as the fund preferred the integrated oils rather than exploration and services.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004		2005		2006		2007		YTD 29/08/2008	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	6.9	847/1151	3.7	745/1308	15.6	361/1455	0.1	1409/1718	-12.0	887/1893
Index**	10.9		4.9		15.8		5.5		-11.4	
Median	9.0		4.5		12.7		6.2		-12.2	

** S&P 500 (Composite)

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