

Prospectus

Legg Mason Funds **ICVC**

(an umbrella company with
variable capital registered in
England and Wales under
registered number IC000247)

30 March 2012

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Directory

The Company:	Legg Mason Funds ICVC
Head Office and Address for Service of Notices:	201 Bishopsgate London EC2M 3AB
Authorised Corporate Director (the “ACD”), Administrator and Registrar:	Legg Mason Investment Funds Limited 201 Bishopsgate London EC2M 3AB For share dealing and other administrative matters, the ACD should be contacted at the following address: PO Box 10649 Chelmsford Essex CM99 2BD
Depository:	State Street Trustees Limited 525 Ferry Road Edinburgh EH5 2AW
Legal Advisers to the Company:	Eversheds LLP One Wood Street, London, EC2V 7WS
Auditors	PricewaterhouseCoopers LLP Hay’s Galleria 1 Hay’s Lane London, SE1 9RD

Terms used in this Document

“Business Day”	any day other than a Saturday, Sunday, public holiday in England, Christmas Eve or any other day on which the London Stock Exchange is not open for business
“CESR Guidelines”	the guidelines published by the Committee of European Securities Regulators in respect of the Eligible Assets Directive
“COLL”	refers to the appropriate chapter or rule in the COLL Sourcebook
“the COLL Sourcebook”	the Collective Investment Schemes Sourcebook issued by the FSA as amended from time to time
“the Company”	Legg Mason Funds ICVC
“Eligible Assets Directive”	the European UCITS Eligible Assets Implementing Directive (Commission Directive 2007/16/EC), clarifying the investment powers for UCITS schemes such as the Funds
“Efficient Portfolio Management” or “EPM”	for the purposes of this Prospectus, an investment technique where derivatives are used for one or more of the following purposes: reduction of risk, reduction of cost or generation of additional income with a level of risk which is consistent with the risk profile of the Company and the risk diversification rules laid down in COLL, as more fully described in Appendix 4
“FSA”	the Financial Services Authority
“the FSA Rules”	the FSA Handbook of Rules and Guidance
“Fund”	a sub-fund of the Company - full details of the Funds are set out in Appendix 1
“Hedged Shares”	a class or classes of Shares which allow the use of currency hedging transactions to reduce the effect of exchange rate fluctuations and which include “(Hedged)” in their name
“ICVC”	a UK authorised open ended investment company (which is an investment company with variable capital)
“Instrument of Incorporation”	the constitutional document constituting the Company

“Regulations”	the Open-Ended Investment Companies Regulations 2001 as amended or re-enacted from time to time and the FSA Rules
“Scheme Property”	the assets of the Company (in respect of a Fund as the context requires) as held and invested in accordance with the FSA Rules
“Shares”	shares in the capital of the Company, being shares which relate to a particular class of share of a Fund (including fractions of one thousandth of a share)
“Shareholder”	a holder of Shares in the Company
“UCITS Directive”	the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (“UCITS”) (No 2009/65/EC), as amended

Introduction

This document is the prospectus of the Legg Mason Funds ICVC, a UK authorised investment company with variable capital. It has been prepared in accordance with the rules contained in the COLL Sourcebook and complies with the requirements of Part 4 of the COLL Sourcebook. Copies have been sent to the Financial Services Authority and Depositary in accordance with the COLL Sourcebook.

This Prospectus is valid as at 30 March 2012. **Any Shareholder or prospective Shareholder should check with the ACD that this document is the most recent version and that no revisions have been made to this Prospectus since this date.**

If you are in any doubt about the suitability of investing in Shares of a Fund or the contents of this Prospectus, you should consult your financial adviser. This Prospectus sets out only generic information concerning the Company and its Funds. Potential investors are encouraged to seek appropriate advice regarding their own circumstances in respect of any investment in Shares of the Company's Funds.

The class A and class B Shares of the Funds contained in this Prospectus are marketable to retail and institutional investors.¹ Due to the minimum investment amounts, class I Shares of the Funds contained in this Prospectus are marketable to institutional investors.

Legg Mason Investment Funds Limited, the Authorised Corporate Director of the Company, is the person responsible for the information contained in this Prospectus and accepts responsibility accordingly. It has taken all reasonable care to ensure that, to the best of its knowledge and belief, the information in this document does not contain any untrue or misleading statement or omit any matters required by FSA Rules to be included in it.

This Prospectus is intended for distribution in the United Kingdom only. Its distribution in other countries may be restricted. This Prospectus does not amount to an offer in any jurisdiction where such offer may be prohibited or to any potential investor outside the United Kingdom who is prohibited by applicable laws from subscribing for Shares.

¹ NOTE: please note that the class A and class B Shares of the Legg Mason Income Optimiser Fund are currently marketable to institutional investors only,

The Company and its Funds

The Company

Legg Mason Funds ICVC is an investment company with variable capital incorporated in England and Wales and authorised by the Financial Services Authority on 31 July 2003.

Base Currency

The currency of the Company is pounds sterling or such other currency or currencies as may be the lawful currency of the United Kingdom from time to time.

The Funds

The Company is structured as an umbrella fund comprising various Funds, each of which is operated as a distinct fund with its own portfolio of investments. The Company is an open ended investment company authorised in the UK (and so is an ICVC). The Company is authorised as a UCITS scheme, and each of the Funds would be a UCITS scheme if it has a separate authorisation order.

The Funds in which Shares are currently available are:

Fixed Income Funds

Legg Mason Global Multi Strategy Bond Fund
 Legg Mason Global Blue Chip Bond Fund²
 Legg Mason Global Credit Absolute Return Fund
 Legg Mason Income Optimiser Fund

Equity Funds

Legg Mason Asia Pacific Fund
 Legg Mason Continental European Equity Fund
 Legg Mason Global Equity Income Fund
 Legg Mason Japan Equity Fund
 Legg Mason UK Equity Fund
 Legg Mason US Equity Fund
 Legg Mason US Equity Income Fund
 Legg Mason US Smaller Companies Fund

Full details of each Fund are set out in Appendix 1.

Investment Objectives and Policies of the Funds

The purpose of the Funds is to optimise income and/or capital growth. Each Fund has its own specific investment objective and policy as set out in Appendix 1.

² NOTE: Please note that the Fund changed its name on 11 March 2011 and was formerly known as Legg Mason Sterling Corporate Plus Bond Fund

ISAs

It is currently intended that each of the Funds will be a qualifying investment for the purposes of the stocks and shares component of an ISA for the purposes of the ISA Regulations (which from 6 April 2008 includes converted PEPs), and it is hoped this can continue to be the case.³ It should be noted however that the ACD may alter this position if it is considered to be in the interests of Shareholders generally to do so. The tax relief for investments held in ISAs has already diminished, and the ability to reclaim the tax credit on UK dividend income received in respect of investments held within an ISA ended in respect of dividend distributions made after 5 April 2004. HM Revenue & Customs regulations on qualifying investments for ISAs are amended from time to time. Depending on the details of the regulations at any relevant time, it is possible (although it is thought unlikely) that, in the future, because of their respective investment objectives and policies, the Funds may cease to be qualifying investments for the purposes of the ISA Regulations in future years. At all times the Funds' respective investment objectives and policies will prevail over any intention to ensure that the Shares in the Funds remain eligible to be held within an ISA. If any of the Funds cease to be ISA qualifying investments, Shareholders will be notified at the relevant time.

Past performance

Details of the performance of each of the Funds are set out in relation to each Fund in Appendix 3.

Risk factors

Risk is about how likely an investment is to fluctuate in value over time. The level of risk varies between Funds. While historically over the longer term shares and bonds have been seen to outstrip the returns expected from a bank or building society account, potential investors should consider the following risk factors before investing in the Company or a particular Fund. Indications of risk profile should not, however, be read as a recommendation as to the suitability of a particular Fund for a particular investor, but as simply an indication of some of the relevant risk factors which should be assessed by an investor or prospective investor in the light of that person's personal and financial circumstances, and with the assistance of a professional adviser.

The following key points should be taken into account:

Fluctuating value

- The value of your investment in a Fund (or ISA investing in a Fund) can go down as well as up and investors may not get back the amount originally invested.
- The value of Shares in a Fund and income from them is not guaranteed.

Investment Objective

- Whilst the ACD will endeavour to manage a Fund with a view to achieving its specific investment objective, there is no assurance that the investment objective of the Fund will be achieved.

Past performance

- Past performance is not a reliable indicator of future results and may not be repeated.

Tax position

³ NOTE: please note that due to the minimum investment amounts for the Shares in the Legg Mason Income Optimiser Fund, this Fund is not currently available for investment through an ISA.

- The tax position as stated in this Prospectus is believed to be accurate as at the date of this Prospectus. It may be subject to change in the future. Individual investors should consider their own tax position which will depend on their individual circumstances. (Current favourable situations such as the tax treatment of ISA investors may not be maintained in the future.)
- The value of tax relief for ISAs depends on the personal circumstances of investors. The levels and bases of such relief may change or be removed.

Concentration risk

- As a result of the investment methods, the Legg Mason US Equity Fund, the Legg Mason Global Equity Income Fund and the Legg Mason Japan Equity Fund may select fewer equities for their portfolios than is common for other equity funds and this concentration carries more risk than funds investing in a larger number of companies.

Small and mid-sized companies risk

- Shares may be acquired in companies that have relatively small market capitalisations and which therefore may not be readily marketable. This may, for example, increase the risk profile of Legg Mason US Smaller Companies Fund, the Legg Mason Asia Pacific Fund and Legg Mason Japan Equity Fund.

Credit risk

- The Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Credit Absolute Return Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Blue Chip Bond Fund invest in 'investment grade' and/or 'non-investment grade' bonds or debt securities and are therefore exposed to credit risk. Credit risk is the risk that a government or company that issues a fixed income security cannot repay principal or pay interest when due. This risk is higher when the fixed income security has a low credit rating – these fixed income securities are known as 'non-investment grade bonds' or 'non-investment grade debt securities' and have the potential for greater losses. The risk of default for 'non-investment' grade bonds is also higher than with 'investment grade' bonds – these factors may have a negative effect on the value of the Fund. In addition, the market for debt securities which are rated below investment grade and/or have a lower credit rating generally is of lower liquidity and less active than for higher rated debt securities and a Fund's ability to liquidate its holdings in response to changes in the economy or the financial markets may be further limited by factors such as adverse publicity and investor perception.
- The ratings of Standard & Poor's, Moody's and equivalent external rating agencies are the opinions of those agencies. Such ratings are relative and subjective, and are not absolute standards of quality. Unrated debt securities are not necessarily of lower quality than rated debt securities, but they may not be attractive to as many buyers. The rating agencies may change, without prior notice, their ratings on particular debt securities held by a Fund, and downgrades in ratings are likely to adversely affect the price of the relevant debt securities. Investment grade debt securities may be subject to the risk of being downgraded to below investment grade.

Market risk

- For those Funds which invest outside the UK, there could be risks associated with the markets in which investments could be made, which could include dealing difficulties settlements and custody practices.
- The Legg Mason Asia Pacific Fund, Legg Mason Global Blue Chip Bond Fund, Legg Mason Global Multi Strategy Bond Fund, Legg Mason Global Equity Income Fund, Legg Mason Continental European Equity Fund, the Legg Mason Income Optimiser Fund and the Legg Mason

Global Credit Absolute Return Fund invest in emerging markets which are considered less well developed and regulated than some of the world's major stock markets. Investing in emerging markets is subject to additional risks that may include accounting and reporting standards, dealing difficulties, settlement and custody practices, appropriation of assets and political or social instability. This may increase settlement risk and result in delays in investment into these Funds. These Funds may also be exposed to credit risk on parties with whom it trades and it will bear the risk of settlement default.

- Disclosure and regulatory standards in these emerging markets may be less developed and there may be less publicly available information on issuers than is available in developed countries. In particular, reliance may be placed on representations from the management of companies and there may be less independent verification of information than would apply in many developed countries. The valuation of assets and exchange differences may also be treated differently from international accounting standards.

Counterparty risk

- Counterparty risk is the risk of suffering loss due to another party not meeting its financial obligations. The main source of this risk for an investment fund is where trade counterparties fail to meet their transaction commitments. The Fund only buys and sells investment with brokers which have been approved by the ACD as an acceptable counterparty. In addition, limits are set on the maximum exposure to any individual broker that may exist at any time, and these limits are reviewed regularly. Consequently, in normal market conditions it is not considered that the counterparty risk is significant. It is however possible for a problem to arise both on exchange traded and over the counter transactions.

Mortgage backed securities and Asset backed securities risk

- The Legg Mason Income Optimiser Fund may from time to time be significantly invested in mortgage backed securities ("MBS") and asset backed securities ("ABS"). MBS and ABS are securities that provide the holder (i.e., the Fund) with regular payments dependent on the cash-flow arising from a specified pool of assets, such as interest and capital payments from mortgages (in the case of MBS) or car loans, other secured loans and credit cards (in the case of ABS). Given the nature of MBS and ABS, the timing and the size of the cash-flow from such securities is not fully assured and early repayment of the mortgages or loans may reduce the payments from such securities and could result in a loss for the Fund. MBS and ABS may be subject to a greater level of credit risk, interest rate risk and liquidity risk when compared with other fixed income securities.

Interest rates

- The Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Credit Absolute Return Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Blue Chip Bond Fund hold fixed income investments and may be affected by changes in interest rates. As interest rates rise, the value of fixed income investments tends to fall, and so will the value of these Funds. In contrast, if interest rates fall the value of these investments and of these Funds, may rise.

Single Country/Region Funds

- The Legg Mason Japan Equity Fund, the Legg Mason UK Equity Fund, the Legg Mason US Equity Fund, the Legg Mason US Equity Income Fund and the Legg Mason US Smaller Companies Fund invest in companies concentrated predominantly within a single country and the Legg Mason Asia Pacific Fund and the Legg Mason Continental European Equity Fund invest in companies concentrated predominantly within a single region. This means that they are subject to all risks of that country's/region's equity market environment and as a result these Funds carry

more risk than other funds that diversify their investments across a broad range of countries/regions. This concentration can lead to increased volatility in the Fund's Share price.

Absolute Return Funds

- Although the Legg Mason Global Credit Absolute Return Fund seeks to maximise absolute return, this objective may not be achieved and the Fund may experience negative returns. Investors should not interpret the Legg Mason Global Credit Absolute Return Fund's investment objective as an implication that absolute return is guaranteed.

Liquidity

- The Funds invest in an area of the market that may be subject to liquidity risk. Liquidity risk is a measure of how quickly an investment can be sold. Investments in smaller companies, smaller and more specialist stock markets and particular sectors of an economy tend to be less liquid than other kinds of investments. The less liquid an investment, the more its value tends to go up and down.

Leverage

- A proportion of the capital may be leveraged. While leverage presents opportunities for increasing the capital return, it has the effect of potentially increasing losses as well. Any event which adversely affects the underlying investments could be magnified to the extent the capital is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to the underlying investments could result in a substantial loss to capital that which could be greater than if capital were not leveraged.

Exchange rates

- Fluctuations in exchange rates may affect the value of an investment and any income derived from it.
- Although the Funds' base currency is pounds sterling, they may be invested in securities that are valued in foreign currencies. The Funds may use eligible derivatives and/or forward currency contracts to hedge their foreign currency exposure back to the base currency, pounds sterling. Currently only the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Global Equity Income Fund, the Legg Mason Continental European Equity Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund intend to hedge their currency exposure by way of derivatives including forward currency contracts.

Hedged Shares

- Each of the Legg Mason US Equity Income Fund, the Legg Mason US Equity Fund and the Legg Mason US Smaller Companies Fund has Hedged Shares and non-Hedged Shares.
- With respect to Share classes in such Funds that do not include "(Hedged)" in their name, the Share classes' exposure to changes in exchange rates between the currencies that are significant to the Fund's investment strategy (the "Underlying Currencies") and pounds sterling will not be hedged. As such, the net asset value per Share and investment performance of such Shares classes may be affected, positively or negatively, by changes in the value of the Underlying Currencies relative to the value of pounds sterling.
- With respect to Share classes in such Funds that do include "(Hedged)" in their name ("Hedged Shares"), while it is intended to hedge the risk of changes in value between the Underlying Currencies and pounds sterling, there can be no guarantee that this strategy will be successful. No hedging strategy can eliminate currency risk entirely and should the strategy be incomplete or

unsuccessful, the net asset value per Share and investment performance of such Share classes may remain vulnerable to changes in the value of the Underlying Currencies relative to the value of pounds sterling. Furthermore, the use of Share class hedging strategies may substantially limit Shareholders in the relevant Hedged Share class from benefiting if pound sterling falls against the Underlying Currencies.

- As there is no segregation of liabilities between Share classes, there is a remote risk that under certain circumstances, currency hedging transactions in relation to a Share class could result in liabilities which might affect the net asset value of other Share classes of the Fund.
- Hedging transactions will be clearly attributable to the relevant Hedged Share class. All costs and gains or losses of such transactions shall be borne exclusively by the relevant Hedged Share class in a manner whereby such costs and gains or losses shall not impact the net asset value of the Share classes other than the relevant Hedged Share class.
- Investors in Hedged Shares should note that risk warning “Exchange rates” above is still applicable to their investment.

Suitability

- Investments in the Funds (either directly or indirectly through ISAs) may not be suitable for all investors. If you are in any doubt you should seek independent financial advice, although you will have to bear the costs of such advice.

Rights to cancel

- You will only have cancellation rights if your investment is made as a result of your having taken investment advice from an authorised financial adviser.
- If you exercise any right to cancel, you may not get back the amount initially invested if the Share price has fallen since you invested.
- The ACD has the right to cancel any purchase contract where the payment is not received in full within 30 days of the relevant Dealing Day. The applicant remains liable for any loss incurred by the ACD in the case of non-settlement.

Charges and expenses

- The deductions for charges and expenses, in particular the initial charge, are not made uniformly throughout the life of the investment. If you cash in during the early years of your investment, you may not get back the amount initially invested.
- For the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Global Equity Income Fund, the Legg Mason Income Optimiser Fund and the Legg Mason US Equity Income Fund the annual management charge is levied against capital. Therefore, the capital growth of the Funds may be adversely affected. Details of how management charges are levied are explained in the section on Fees and Expenses below.
- For any Fund, until they reach a sufficient size, the proportion of charges and expenses allocated to such a Fund may be higher and so the return on investment in the Fund is more affected by fees and charges than in more established Funds.

Liabilities

- Each Fund, in usual circumstances, is treated as having its own assets and liabilities. However, the assets of each Fund are not “ring fenced” and, if the Company is unable to meet liabilities attributable to any particular Fund out of the assets attributable to that Fund, the excess liabilities may have to be met out of the assets attributable to the other Funds. Assets may be transferred between Funds if it is necessary to do so to satisfy any creditor proceeding against certain of the assets of the Company.
- Shareholders are not liable for the debts of the Company. A Shareholder is not liable to make any further payment to the Company after he has paid the purchase price of the Shares.

High Risk Funds

- Owing to the investment policies of the Legg Mason Japan Equity Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund, these Funds should be viewed as high risk investments.

Volatility

- Fund Share prices can fluctuate on a daily basis. Under certain market conditions, for example during periods of high volatility, such fluctuations can be particularly marked and the value of your investment may fall substantially over a short period of time.

Derivatives

Unless a Fund’s investment policy (as specified in Appendix 1) states that the contrary is intended, the ACD does not intend to enter into derivatives and forward transactions except for the limited purposes of efficient management of the portfolio. **Accordingly, unless otherwise stated in this Prospectus in relation to a particular Fund, it is not anticipated that the use of derivatives will have an adverse effect on the risk profile of the Funds.**

The Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund may use derivatives for investment purposes. Using derivatives may increase the volatility of the Fund and alter the risk profile of the Fund. Investment in derivatives and forwards may result in losses to a Fund in excess of the amount invested. Investing in derivatives may expose investors to the risk of gearing or leverage so that a relatively small movement in the price of the underlying investment can result in a much larger movement, either up or down, in the price of the investment. Investments in, for example, futures, can result in an obligation to take delivery of an underlying asset at a future date, or positions may need to be settled in cash which may in turn result in the Fund being exposed to a liquidity risk.

Investment Powers and Safeguards

The assets of each Fund will be invested with the aim of achieving the investment objective of that Fund in accordance with each Fund’s investment policy. They must be invested so as to comply with the investment and borrowing powers and restrictions set out in the COLL Sourcebook, the Instrument of Incorporation and this Prospectus.

A summary of the investment and borrowing powers and restrictions applicable to the Funds is set out in Appendix 4.

Management and Administration

Authorised Corporate Director

The Authorised Corporate Director (ACD) of the Company is Legg Mason Investment Funds Limited whose registered address and head office is at 201 Bishopsgate, London EC2M 3AB.

The ACD is a private limited company with an authorised share capital of £20,000,000 and an issued share capital of £10,700,000 consisting of 4,000,000 ordinary shares of £1 each fully paid and £6,700,000 preference shares of £1 each fully paid. The ACD was incorporated in England on 14 January 1970. The ultimate holding company of the ACD is Legg Mason, Inc., which is incorporated and registered in the United States of America. The ACD is authorised and regulated by the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS.

The directors of the ACD are Robert Shearman, Brian Eakes, Joe Sullivan, John Alldis, Ursula Schliessler and Terence Johnson. They act as directors of companies other than the ACD (including companies that are within the same group of companies as the ACD) but do not engage in business activities that are not connected with the Company that would be significant to the Company's business within the meaning of the FSA Rules.

The appointment of the ACD was made under an agreement dated 11 August 2003 between the Company and the ACD (the "ACD Agreement").

The ACD is responsible for managing and administering the Company's affairs in compliance with the FSA Rules. Under the terms of the agreement, the ACD is to provide investment management services; administrative, accounting and secretarial services; and registrar services to the Company. Subject to the FSA Rule restrictions which are explained below (in the paragraph headed "General"), the ACD may delegate or employ agents to perform certain of its functions. The ACD, has appointed State Street Bank and Trust Company to provide administration services to the ACD in connection with its responsibilities in respect of the Company and its Funds.

The ACD may provide similar services for other clients, but will endeavour to ensure fair treatment as between the Company and other customers whose funds are managed or advised by the ACD.

The agreement may be terminated by the Company in general meeting following the third anniversary of the date of this agreement on giving 12 months' written notice to the ACD or by the ACD on giving 12 months' written notice to the Depositary. It terminates automatically if the ACD ceases to be the authorised corporate director of the Company or if the Company is wound up.

The agreement includes an indemnity from the ACD to the Company in respect of liabilities incurred by the Company by reason of the acts or omissions of the ACD. However, the Company indemnifies the ACD in respect of liabilities incurred by the ACD by reason of the ACD's performance of its duties in accordance with the terms of the agreement.

Other schemes managed/operated by the ACD

No other authorised trusts or ICVCs are currently managed or operated by the ACD.

Investment Managers

The ACD has appointed other companies to provide investment management and advisory services to the ACD in respect of the Funds. Details of these companies are set out in those Funds' specific details in Appendix 1.

Where investment managers are appointed, they are appointed on similar terms as explained in the following paragraphs.

Under the terms of each agreement between an investment manager and the ACD, the ACD delegates selection of securities for the relevant portfolio to the investment manager and the investment manager shall have authority to deal in investments of that portfolio. No commission is received by the investment manager as a result of its dealings in a Fund.

Such an agreement may be terminated by either the ACD or the investment manager (the length of the notice period differing for different investment managers). It terminates automatically if the ACD ceases to be the authorised corporate director of the Company or if the Company is wound up.

Each such proforma agreement includes an indemnity from the investment manager to the Company and the ACD in respect of liabilities incurred by the Company or the ACD by reason of its fraud, negligence, wilful default or bad faith. However the ACD indemnifies the investment manager in respect of liabilities incurred by the investment manager by reason of its proper performance of its duties in accordance with the terms of the agreement.

Each investment manager may provide similar services for other clients, but will endeavour to ensure fair treatment as between the Company and other customers whose funds are managed or advised by it.

Hedging Agent

The ACD has appointed State Street Bank Europe Limited (the "Hedging Agent") under an agreement to manage the foreign currency exposure in respect of each Hedged Share class. The Hedging Agent is authorised and regulated by the FSA. The Hedging Agent acts on behalf of the ACD and the relevant Funds in entering into hedging transactions in respect of the Hedged Shares.

The agreement may be terminated by the ACD or the Hedging Agent on 60 days' notice to the other. It terminates automatically if the Company is wound up and the ACD may terminate the agreement if it believes it is in the best interests of Shareholders. The agreement contains an indemnity from the Hedging Agent to the Company and the ACD in respect of liabilities incurred by the Company or the ACD by reason of its negligence, fraud or wilful default. However the ACD indemnifies the Hedging Agent in respect of liabilities incurred by the Hedging Agent by reason of its proper and reasonable performance of its obligations or functions under the Agreement.

The Hedging Agent may provide similar services for other clients, but has in place policies and procedures to manage conflicts of interest so that the interests of the ACD and the Company are not adversely affected by actual or potential conflicts of interest.

Administration Services

The ACD has appointed State Street Bank and Trust Company to provide administration and registration services on its behalf. State Street Bank and Trust Company has sub-delegated the

provision of such services to its sub-contractor International Financial Data Services (UK) Limited (“IFDS”). IFDS is authorised and regulated by the Financial Services Authority. The registered office of IFDS is IFDS House, St. Nicholas Lane, Basildon, SS15 5FS.

The ACD has appointed State Street Bank and Trust Company as its delegate under the terms of the ACD agreement. To protect the position of the Company, the Company is a party to this agreement between the ACD and State Street Bank and Trust Company in order that both the ACD and the Company benefit from the warranties and indemnities contained in it.

IFDS acts on behalf of the ACD in respect of dealings in Shares and the questions in relation to the register of Shareholders and statements. In relation to such matters Shareholders should, in the first instance, write to Legg Mason Global Asset Management PO Box 10649, Chelmsford, Essex, CM99 2BD. Cheques should be made out in the name of the ACD, ‘Legg Mason Investment Funds Limited’, not IFDS. This Prospectus therefore refers to the ACD's roles and this includes situations where IFDS perform such roles on the ACD's behalf.

Marketing Services and Distribution

The ACD has appointed Legg Mason Investments (Europe) Limited (the “Distributor”) under an agreement to assist it in preparing marketing literature and generally in promoting and distributing the Funds.

The Distributor is a private limited company incorporated under the laws of England and Wales with company registration number 01732037 and is authorised and regulated by the Financial Services Authority.

The agreement may be terminated by either the ACD or the Distributor on 30 days’ notice to the other. The agreement includes an indemnity from the Distributor to the Company and the ACD in respect of liabilities incurred by the Company or the ACD by reason of its fraud, negligence, wilful default or bad faith. Except in the case of fraud, negligence, wilful default or bad faith the ACD indemnifies the Distributor in respect of liabilities incurred by the Distributor.

The Distributor may enter into arrangements with sub-distributors or other intermediaries to promote and distribute the Funds.

The Depositary

The Depositary of the Company is State Street Trustees Limited, a private limited company incorporated in England and Wales under the Companies Act 1985 on 24 October 1994.

The registered office of the Depositary is at 20 Churchill Place, London E14 5HJ, and its head office which is the Depositary’s address for correspondence is at 525 Ferry Road, Edinburgh, EH5 2AW.

The Depositary is authorised and regulated by the FSA and is treated as having a permission pursuant to section 40 of the Act to act as depositary of open-ended investment companies by virtue of Article 4 of the Order.

The principal business activity of the Depositary is to act as trustee and depositary of collective investment schemes.

The appointment of the Depositary was made under an agreement dated 1 August 2011 between the Company, the ACD and the Depositary.

The Depositary is responsible for the safekeeping of all of the Scheme Property of the Company. The Depositary has a duty to take reasonable care to ensure that the Company is managed in accordance with the FSA Rules relating to pricing of, and dealing in, Shares and income of the Funds. Subject to the FSA Rule restrictions explained below (in the paragraph headed “General”), the Depositary may delegate or employ agents to perform certain of its functions. The Depositary has appointed State Street Bank and Trust Company to provide custody services to the Depositary in respect of the assets of the Company and to provide the facilities for distribution of income. State Street Bank and Trust Company is authorised and regulated by the FSA with an office at 20 Churchill Place, Canary Wharf, London, E14 5HJ. The ultimate holding company of the Depositary and State Street Bank and Trust Company, is State Street Corporation, a company incorporated under the laws of the Commonwealth of Massachusetts, USA.

The agreement may be terminated by either party on 3 months’ written notice to the other party. However the Depositary may not retire voluntarily except on the appointment of a new depositary. The agreement terminates automatically if the FSA obtains a court order to remove the Depositary or the Depositary is wound up.

The Depositary accepts responsibility for its acts or omissions and those of its sub-custodians and other agents. The Company indemnifies the Depositary against liabilities incurred by the Depositary in the proper performance of its duties in accordance with the terms of the agreement.

Auditors

The auditors of the Company are PricewaterhouseCoopers LLP of Hay’s Galleria, 1 Hay’s Lane, London SE1 9RD.

General

The Company, the ACD and the Depositary must each comply with the relevant requirements of the FSA Rules in a timely manner unless delay is lawful and also in the interests of the Company.

The ACD and the Depositary may retain the services of the other, or third parties to assist them in fulfilling their respective roles. The only exceptions to this are:

- that the Depositary may not delegate oversight of the Company to the Company, the ACD or any associate of the Company or the ACD or custody or control of the Scheme Property to the Company or the ACD;
- that any delegation of custody of Scheme Property must be under arrangements which allow the custodian to release documents into the possession of a third party only with the Depositary’s consent; and
- that the ACD does not delegate a mandate in relation to managing investments of the Scheme Property to the Depositary or any other person whose interests may conflict with those of the ACD or the Shareholders or any other person who is not both authorised or registered in the United Kingdom for managing investments and subject to prudential supervision, unless there is an agreement in place between the Financial Services Authority and the overseas regulator of the delegate ensuring adequate co-operation.

The FSA Rules contain various requirements relating to transactions entered into between the Company and the ACD, any investment manager or any associate of them which may involve a conflict of interest. These are designed to protect the interests of the Company. Certain transactions between the Company and the ACD, or an associate of the ACD, may be voidable at the instance of the Company in certain circumstances.

The ACD has policies designed to ensure that in all transactions, a reasonable effort is made to avoid conflicts of interest and when they cannot be avoided, that the Funds and the Shareholders are treated fairly. The ACD acknowledges that there may be some situations where the organisational or administrative arrangements in place for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the Company or the Shareholders will be prevented. Should any such situations arise the ACD will disclose these to Shareholders in an appropriate format.

The ACD has policies designed to ensure that the investment managers act in the Funds' best interests when executing decisions to deal, or placing orders with other entities for execution, on behalf of those Funds in the context of managing the Funds' portfolios ("best execution"). For these purposes, all reasonable steps must be taken to obtain the best possible results for the Funds, taking into account price, costs, speed, likelihood of execution and settlement, size and nature of the order or any other consideration relevant to the execution of the order. Information about the Funds' execution policies is available from the ACD to the Shareholders at no charge on request.

The investment managers may direct transactions on behalf of the Funds to brokers in return for research services and execution services furnished by them to the investment managers. In such circumstances, the investment managers will enter into soft commission agreements or similar arrangements with such brokers. Under such arrangements, the investment managers must ensure that the broker or counterparty to the arrangement has agreed or is required by applicable law to provide best execution to the relevant Fund. Further information about such arrangements is available from the ACD to the Shareholders at no charge on request.

Shares

Share Capital

The maximum share capital of the Company is £100,000,000,000 and the minimum share capital of the Company is £1,000.

Classes of Share

Details of the classes of Share which are currently available in each Fund are set out in the details of the Funds in Appendix 1.

Each Fund issues net accumulation Shares with the exception of the Legg Mason Global Credit Absolute Return Fund, the Legg Mason Income Optimiser and the Legg Mason Global Blue Chip Bond Fund which issue income Shares. The Legg Mason Global Equity Income Fund and the Legg Mason US Equity Income Fund issue both net accumulation and income Shares. The Legg Mason Global Multi Strategy Bond Fund issues net income and gross accumulation Shares. The Funds may each issue all or any of the following classes of such Shares - class A, class B and class I Shares. Class A, class B, and class I Shares have differing minimum investment levels and charging structures.

Income attributable to income Shares is distributed to income Shareholders in respect of each accounting period. Income is paid to Shareholders within 2 months of the end of each accounting period or, at a Shareholders' request, reinvested by the purchase of further income Shares.

Income attributable to accumulation Shares is automatically added to (and retained as part of) the capital assets of the relevant Fund at the end of each accounting period and is reflected in the Share price of accumulation Shares.

Net Shares are Shares in respect of which income allocated to them is distributed or credited to capital (as appropriate) in accordance with relevant tax law, net of any UK withholding tax deducted or accounted for by the Fund. Gross Shares are only available to Shareholders entitled to gross interest distributions without any UK withholding tax being deducted or accounted for by the Fund. Unless specified otherwise, all Shares issued by a Fund shall be net Shares.

For each of the Legg Mason US Equity Income Fund, the Legg Mason US Equity Fund and the Legg Mason US Smaller Companies Fund, with respect to Share classes that do include "(Hedged)" in their name ("Hedged Shares"), the ACD has appointed State Street Bank Europe Limited (the "Hedging Agent") to hedge the risk of changes in value between the currencies that are significant to the Fund's investment strategy (the "Underlying Currencies") and pounds sterling. The total net asset value of the Hedged Shares will be taken into account for the currency hedging transactions. It is intended to fully hedge against fluctuations between the Underlying Currencies and pounds sterling for Hedged Share classes but Shareholders should note that no hedging strategy can eliminate currency risk entirely and no assurance can be given that the hedging objective will be achieved.

Over-hedged and under-hedged positions, while not intended, may arise due to factors outside the control of the Hedging Agent. The Hedging Agent will not actively hedge the currency exposure of a Hedged Share class such that the level of currency exposure hedged exceeds or falls below certain predetermined levels of the net asset value of that Hedged Share class. It is anticipated that the predetermined levels for each Hedged Share class will be within the range of 95 to 105 per cent of the net asset value of the Hedged Share class. If the level of currency exposure hedged exceeds or falls

below such predetermined levels in relation to a particular Hedged Share class as a result of market movements in the underlying investments of the relevant Fund or trading activity in respect of the Shares of the Fund, the Hedging Agent shall adopt as a priority objective the managing back of the currency exposure to 100 per cent, taking due account of the interests of Shareholders. Hedged positions will be monitored each Business Day to ensure that hedged positions do not materially exceed or fall below the permitted level. This review will also incorporate procedures to ensure that positions materially in excess of 100 per cent will not be carried forward month-to-month. Otherwise, a Fund will not be leveraged as a result of the transactions entered into for the purposes of hedging.

Shareholders should be aware that Hedged Shares will still be exposed to the market risks that relate to the underlying investments in the relevant Fund and to other risks as set out in the Risk Factors section above.

The ACD may resolve to create further classes of Share in respect of a Fund in the future.

Register of Shareholders and Statements

All Shares are in registered form. Bearer shares will not be issued.

The register of Shareholders is maintained by IFDS, on behalf of the ACD, at IFDS House, St. Nicholas Lane, Basildon, SS15 5FS. It may be inspected by any Shareholder or his duly authorised agent during normal business hours at that address, without charge.

The Company has the power to close the register for such periods not exceeding 30 days in any one year.

Certificates will not be issued in respect of Shares. Ownership of Shares will be evidenced by an entry on the Company's register of Shareholders.

At least once each year the ACD will send a statement to each person who holds or has held Shares since the time of issue of the last statement. In the case of joint Shareholdings, statements are sent to the first named Shareholder. The statement will describe any current holding of Shares in the Company at the date of the statement and any transactions in Shares in the Company carried out by or on behalf of that person since the date of the last statement. Individual statements will also be issued at any time on request by the registered Shareholder.

Shareholders are advised to check their statements carefully and in the event that they suspect there is an error, are requested to notify the ACD's Investor Services Team within 90 days of receipt of such statement.

Buying, Selling and Switching Shares

General

Requests to sell, buy or switch Shares may be made from 9.00 a.m. until 5.00 p.m. on each Business Day but the time and price at which a transaction takes place depends upon the provisions of the COLL Sourcebook as to pricing of Shares. Requests to sell, buy or switch Shares should be sent to the ACD at PO Box 10649, Chelmsford, Essex, CM99 2BD.

Shares in the Company are not listed or dealt on any investment exchange.

Minimum Holdings

The minimum investment amounts are as follows:

	Class A	Class B	Class I
Minimum initial subscription for Shares in a Fund*	£3,000	£50,000	£5,000,000
Minimum subsequent subscription for Shares in a Fund	£1,000	£5,000	£50,000
Minimum withdrawal amount for Shares in a Fund	£1,000	£5,000	£50,000
Minimum residual value for Shares in a Fund	£3,000	£50,000	£5,000,000

*Other than for the Legg Mason Income Optimiser Fund where the minimum initial subscriptions are £1,000,000 (Class A and Class B) and £5,000,000 (Class I).

If an investor is dealing in a currency other than UK pounds sterling, these minimum amounts are the equivalent in that currency.

The minimum investment, subsequent investment and minimum withdrawal amounts set out above may be waived by the ACD.

Buying and Selling Shares

The price per Share at which Shares are bought or sold is described in the section “Share Prices – Price of a Share”. Any entry or exit charge is payable in addition to that price.

Buying Shares

Applications to buy, sell or switch Shares may be made by post or telephone between 9.00 a.m. and 5.00 p.m. to the ACD on any Business Day. Shares will be bought, sold or switched at a forward price. A forward price is a price determined after the next valuation of the property of the relevant Fund after receipt by the ACD of the investor's instructions.

Applications to buy Shares may be made by telephone, confirmed in writing, by facsimile or by post in writing. Institutional investors who have signed up to EMX's or Calastone's standard terms and conditions may effect the transfer of title to Shares using the EMX messaging system or the Calastone messaging system (as appropriate). Apart from institutional investors who use the EMX or the Calastone messaging systems, the ACD does not currently permit dealings to be undertaken on the basis of electronic communications (for example, by email), but may introduce electronic dealing systems in the future. If the ACD does permit dealing to be undertaken on the basis of electronic instructions in future, the ACD will establish conditions which must be satisfied to effect a transfer

which will be designed to ensure that any such communications purporting to be from a Shareholder or his agent is in fact made by that person.

The ACD has the right to cancel any Shares issued where the payment is not received in full within 30 days of the relevant dealing day. The applicant remains liable for any loss incurred by the ACD in the case of non-settlement. A contract note confirming each purchase will be despatched by close of business on the next Business Day following execution of the transaction. No certificates will be issued.

Selling Shares

Instructions to redeem Shares may be made in writing or by telephone and confirmed in writing. However, no Shares will be redeemed if a holder wishes to redeem less than his entire holding if the redemption would mean that the holder is left holding Shares of a value of less than £3,000 for class A Shares, £50,000 for class B Shares and £5,000,000 for class I Shares.

Where Shares are held in joint names all registered Shareholders must sign a letter of renunciation. For holdings in the name of a limited company or partnership, the written renunciation must be signed by two authorised signatories, unless an authority exists where one signatory is acceptable for the purpose (certified proof of this may need to be supplied to the ACD before any payment can be made). Unless a Shareholder wishes to realise all the Shares comprised in a holding, he should specify in such request the number of Shares that he wishes to realise. A contract note will be issued to confirm the transaction. Payment will be made within five Business Days of the ACD receiving properly completed documentation, the day of receipt of the documentation counting as one day.

Once a request to redeem Shares has been given it cannot subsequently be withdrawn.

Buying Restrictions

GENERAL: The distribution of this Prospectus and the offering or purchase of the Shares may be restricted in certain jurisdictions. No persons receiving a copy of this Prospectus in any such jurisdiction may treat this Prospectus as constituting an invitation to them to subscribe for Shares unless in the relevant jurisdiction such an invitation could lawfully be made to them in compliance with any registration or other legal requirements. Accordingly, this Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Prospectus and any persons wishing to apply for Shares pursuant to this Prospectus to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for Shares should inform themselves as to the legal requirements of so applying and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence, incorporation or domicile.

THE UNITED STATES OF AMERICA: The Shares have not been registered under the U.S. Securities Act of 1933 (the "Securities Act"), and the Company has not been registered under the U.S. Investment Company Act of 1940 (the "Investment Company Act"). The Shares may not be offered, sold, transferred or delivered directly or indirectly, in the United States, its territories or possessions or to U.S. Persons.

Initial Offer of Shares

For any new Fund which is launched, there may be an initial offer period of up to 21 days. The ACD determines the length of the initial offer period and, prior to the commencement of the initial offer, the initial price of a Share which applies throughout the initial offer period. (An initial offer period may terminate early if the ACD, having taken reasonable care, ascertains that, if the current price of a Share were to be calculated by reference to an immediate valuation, it would be likely to vary from the initial offer price by 2% or more of the initial offer price.)

For recently launched Funds, the details of their initial offer periods and initial price are set out in the details of the relevant Funds in Appendix 1.

Switching Between Funds

A Shareholder in a Fund may switch all or some of his Shares in a Fund for Shares in another Fund or another class in the same Fund at any time.

A switch involves a sale of the original Shares (“Original Shares”) held and a purchase of the new Shares (“New Shares”). The ACD may make a switch charge of 1% of the proceeds of the sale of the Original Shares on an investment in the New Shares (see “Fees and Expenses – Switch Charge” below).

If the switch would result in the Shareholder holding a number of Original or New Shares of a value which is less than the minimum holding in the Funds concerned, the ACD may, if it thinks fit, convert the whole of the applicant's holding of Original Shares to New Shares or refuse to effect any switch of the Original Shares.

Investors subject to UK tax on capital gains should note that a switch between Funds is treated as a disposal for the purposes of tax on capital gains. A gain realised on such transaction could give rise to capital gains tax liability for UK resident Shareholders.

No rights to cancel the purchase of Shares under the FSA Rules will be given to Shareholders who switch their Shares for Shares in another class or Fund of the Company.

Compulsory Transfer or Redemption of Shares

The ACD may impose the restrictions it thinks necessary to ensure that no Shares in the Company are acquired or held by any person in breach of law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. The ACD may reject any application for, or sale of, Shares or any switching notice given.

If the ACD becomes aware that:

- any Shares are owned directly or beneficially in breach of any law or governmental regulations, or
- the Shareholder in question is not eligible to hold such Shares or if it reasonably believes this to be the case, or
- a holding constitutes a breach of the instrument of incorporation of the Company or this Prospectus as to eligibility or entitlement to hold any Shares

then the ACD may give notice requiring the transfer or repurchase of such Shares. If any person does not take such steps within 30 days, he shall then be deemed to have given a written request for the redemption of all of his Shares.

A person who becomes aware that he is holding or owning Shares in breach of any law or governmental regulation or is not eligible to hold those Shares must either:

- transfer all those Shares to a person qualified to own them; or
- give a request in writing for the redemption of all such Shares unless he has already received such a notice from the ACD to transfer the Shares or for them to be repurchased.

Issue of Shares in exchange for in specie assets

The ACD may arrange for the Company to issue Shares in exchange for assets other than cash but will only do so where the Depositary is satisfied that the Company's acquisition of those assets in exchange for the Shares concerned is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders. The ACD will ensure that the beneficial interest in the assets is transferred to the Company with effect from the issue of the Shares. The ACD will not issue Shares in any Fund in exchange for assets the holding of which would be inconsistent with the investment objective of that Fund.

In Specie Redemptions of Shares

If a Shareholder requests the redemption or cancellation of Shares, the ACD may, if it considers the deal substantial in relation to the total size of the Fund or Funds concerned, arrange for the Company to cancel the Shares and transfer Scheme Property to the Shareholder instead of paying the price of the Shares in cash or, if required by the Shareholder, pay the net proceeds of sale of the net relevant Scheme Property to the Shareholder. A deal involving Shares representing 5% or more in value of a Fund will normally be considered substantial though the ACD may, in its discretion, agree an in specie redemption with a Shareholder whose Shares represent less than 5% in value of the Fund concerned.

The procedure for an “in specie redemption” is:

- before the normal cash payment of the price of Shares becomes payable, the ACD will give written notice to the Shareholder that Scheme Property (or the proceeds of sale of that Scheme Property) will be transferred to that Shareholder;
- the ACD will select the property to be transferred in consultation with the Depositary. The selection must give no greater advantage or disadvantage to the redeeming Shareholder than to continuing Shareholders; and
- the Company retains from that property (or proceeds) the value (or amount) of any stamp duty reserve tax to be paid on the cancellation of Shares.

Deferred Redemptions of Shares

If requested redemptions of Shares on a particular Business Day exceed 10% of the relevant Fund's value, redemptions of Shares may be deferred to the next valuation point. Any such deferral will only be undertaken in such manner as to ensure consistent treatment of all Shareholders who had sought to redeem Shares at the valuation point at which redemptions were deferred. Deferral will be pro-rated based on the value of Shares being redeemed (provided that the ACD may determine in its discretion a value threshold below which all redemptions will be effected, and above which the foregoing pro-rata

deferral shall apply), and so that all deals relating to an earlier valuation point are completed before those relating to a later valuation point are considered.

The intention of the deferred redemption provision is to reduce the impact of dilution on the Fund in question. In times of high levels of redemption, deferred redemption provisions would enable the ACD to protect the interests of continuing Shareholders by allowing it to match the sale of a property of the Fund in question to the levels of redemptions of Shares in that Fund.

Suspension of Dealings in Shares

The ACD may, with the prior agreement of the Depositary, and must without delay, if the Depositary so requires, temporarily suspend dealings in Shares in a Fund, where due to exceptional circumstances it is in the interests of all the Shareholders in the relevant Fund or Funds. On a suspension, the FSA will immediately be informed. Any such suspension will be notified to Shareholders as soon as practicable after the suspension commences and the ACD will ensure that it publishes sufficient details to keep Shareholders appropriately informed about the suspension including, if known, its likely duration. The ACD and the Depositary will formally review the suspension regularly and inform the FSA of the results of this review and any change in the information previously provided to the FSA regarding the suspension. A suspension of dealings in Shares must cease as soon as practicable after the exceptional circumstances which caused the suspension have ceased. At the end of the period of suspension, the recalculation of the price of Shares will recommence by reference to the price calculated at the first Valuation Point after the recommencement of dealings in Shares.

The ACD may agree during the suspension to deal in Shares in which case all deals accepted during and outstanding prior to the suspension will be undertaken at a price calculated at the first Valuation Point after the restart of dealings in Shares.

Prevention of Money Laundering

Funds conducting investment business are responsible for compliance with money laundering prevention regulations. Shareholders may be asked to provide proof of identity when buying, selling or switching Shares or an electronic check of information may be conducted. Specific details of the information required of a prospective investor in Shares will be provided to the person concerned in response to his or its application for Shares. Until satisfactory proof of identity is provided, the ACD reserves the right to refuse to issue Shares, to switch Shares, to transfer Shares, to pay the proceeds of any sale, or to amend the register.

Share Prices

Price of a Share

Shares are priced on a single mid-market pricing basis in accordance with the COLL Sourcebook.

The Company deals on a forward pricing basis (and not on the basis of published prices). A forward price is the price calculated at the next valuation point after the deal is agreed.

The price of a Share is the net asset value of the relevant Fund attributable to the relevant Share class of that Fund divided by the number of Shares of that class in issue.

The net asset values attributable to the Share class(es) of each Fund will normally be calculated at 12.00 Noon UK time on each valuation date which shall be each Business Day. The net asset value attributable to a Share class is determined by calculating the value of the assets attributable to that class and deducting the liabilities attributable to that class in accordance with the provisions for the calculation set out in the Company's Instrument of Incorporation. In summary:

- investments with a single price (whether a transferable security or units or shares in a collective investment scheme) shall be valued at that price;
- investments for which different buying and selling prices are quoted will be valued at the mid-market price;
- other Scheme Property shall be valued at a fair and reasonable mid-market value;
- derivative and forward transactions shall be valued as agreed between the ACD and the Depositary; and
- adjustments will be made for tax, outstanding borrowings and dealing expenses.

In addition, income on debt securities – such as bonds – is calculated on an Effective Yield basis. The Effective Yield basis treats any projected capital gain or loss on a debt security (when compared to maturity or par value) as income and this, together with any future expected income streams on the debt security, is amortised over the life of that debt security (to maturity) to calculate an effective yield which is used for the calculation of distributable income in all Fixed Income Funds other than the Legg Mason Income Optimiser Fund. With regard to the Legg Mason Income Optimiser Fund, income on debt securities may be distributed on a coupon basis if this is higher than income calculated on an Effective Yield basis. This has the effect of increasing the distributable income for the Fund and constraining the Fund's capital performance to an equivalent extent.

Special provisions apply in the case of an initial offer of Shares, where the ACD sets the initial offer price (as explained in the paragraph “Initial offers of Shares” in the section “Buying, selling and switching Shares”).

Publication of Prices

Prices shall be published daily on the ACD's website: www.leggmason.co.uk. Prices may also be obtained by telephoning us on 0844 620 0013.

Dilution

The application of single mid market pricing of Shares can lead to an effect known as “dilution”. Dealing costs in, and spreads between the buying and selling prices of, a Fund's underlying investments mean that the buying and selling prices of Shares calculated for a Fund on a mid market

single pricing basis may differ from the value of the proportionate interests those Shares represent in the Fund, and so dealing at those prices could lead to a dilution in the proportionate value of the Scheme Property of the Fund represented by the remaining Shares and so disadvantage remaining Shareholders. Consequently the ACD is obliged under the FSA Rules to adopt one of two policies in order to prevent such dilution and its consequent potential adverse affect on the remaining Shareholders. The ACD may apply a dilution levy or apply a dilution adjustment.

The ACD's current policy is that it may make a dilution adjustment which involves an adjustment to the price of the Share above or below that which would have resulted so that the price of the Share is above or below that which would have resulted from a mid-market valuation for the purposes of reducing dilution in the Fund (or to recover an amount which it has already paid or is reasonably expected to pay in the future) in relation to the issue or cancellation of Shares in certain circumstances explained below.

Any dilution adjustment will be calculated by reference to the estimated costs of dealing in the underlying investments of the relevant Fund, including any dealing spreads, commission and transfer taxes in accordance with the FSA Rules.

The ACD may make a dilution adjustment in the following circumstances:

- (i) if the Fund is in continual decline;
- (ii) if the Fund has experienced large levels of net sales or net purchases relative to its size – assessed as 5% or more than the net asset value of the Fund as calculated at latest available valuation; or
- (iii) where the ACD considers it appropriate in order to protect the interests of continuing Shareholders.

A dilution adjustment may be made as part of the calculation of the Share price for the purpose of reducing dilution in the Fund or to recover any amount which the Fund has already paid or reasonably expects to pay in the future in relation to the issue or cancellation of Shares. Where the ACD decides to make or not to make a dilution adjustment it must not do so for the purpose of creating a profit or avoiding a loss for the account of the Company, the Depositary, the ACD, any investment manager, or any associate of any such person, or the auditor of the Company.

The ACD applies a number of policies and procedures designed to protect the Funds from being adversely impacted by the trading strategies of investors. In particular, as mentioned above, the ACD may apply a dilution adjustment in the event that net subscriptions and redemptions reach 5% of the Net Asset Value of the relevant Fund although a lower limit may be set if required.

This adjustment accrues to the benefit of the Fund itself. Where the ACD allows a reduced front-end charge on institutional or similar trades, the trading strategies of the registered holders are closely monitored to ensure that, in the event of short-term trading policies becoming apparent, the terms of business are reviewed.

The ACD believes that these policies provide significant protection to prevent dilution of the Funds resulting from short term trading. Late trading is illegal as it violates the provisions of the Prospectus. The ACD will use reasonable endeavours to ensure that late trading cannot take place. The effectiveness of these procedures is closely monitored. The ACD may suspend dealing in the event that a reliable price cannot be established as at the valuation point.

It should be noted that, as dilution is directly related to the inflows and outflows of monies from a Fund, it is not possible to predict accurately whether or not dilution will occur at any particular point in time, and how frequently the ACD will need to make such a dilution adjustment. Based upon historical dealing costs and frequencies, the ACD estimates that the rates of any dilution adjustment and the frequency with which any dilution adjustment may be applied will be as follows:

Name of Fund	Typical dilution adjustment (% from mid price) (i)	Frequency of dilution adjustment p.a. (ii)
Legg Mason Asia Pacific Fund	+0.34% / -0.33%	0
Legg Mason Continental European Equity Fund	+0.08% / -0.08%	0
Legg Mason Global Equity Income Fund	+0.14% / -0.17%	4
Legg Mason Global Multi Strategy Bond Fund	+0.25% / -0.25%	2
Legg Mason Japan Equity Fund	+0.54% / -0.53%	0
Legg Mason Global Blue Chip Bond Fund	+0.42% / -0.42%	1
Legg Mason Global Credit Absolute Return Fund*	-	-
Legg Mason Income Optimiser Fund*	-	-
Legg Mason UK Equity Fund	+0.59% / -0.11%	0
Legg Mason US Equity Fund	+0.29% / -0.09%	1
Legg Mason US Smaller Companies Fund	+0.32% / -0.32%	5
Legg Mason US Equity Income Fund*	-	-

(i) Positive dilution adjustment figures indicate a typical increase from the calculated mid price when the Fund experiences large levels of net sales.

Negative dilution adjustment figures indicate a typical decrease from the calculated mid price when the Fund experiences large levels of net redemptions.

Figures are based on the historic costs of dealing in the underlying investments of the relevant Funds for the 12 months to 28 February 2011, including any spreads, commissions and transfer taxes.

(ii) Figures are based on historic dealing in the relevant Funds for the 12 months to 31 January 2011 and are for class A Shares.

* No dilution adjustments available as the Funds were not yet available when the dilution adjustments estimates were calculated on 31 January 2011.

Although, as stated above, as at the date of this Prospectus, the ACD's policy is that it may require a dilution adjustment on the basis set out above, if, at some future date, it appears to the ACD that a charge of dilution levy would be preferable to making a dilution adjustment then the ACD may change its policy, and may charge a dilution levy.

Fees and Expenses

ACD'S Fees and Expenses

Entry charge

The ACD may make an entry charge on an investment in Class A and/or Class B shares. There is no entry charge on an investment in Class I shares. The entry charge is calculated as a percentage of the amount that an investor subscribes and is taken out of such subscription amount before it is invested in the relevant Share class. The entry charges for each Share class in each Fund are set out in Appendix 1 and are maximum figures. The ACD may in its discretion waive part or all of such charges.

Exit charge

The ACD currently makes no charge on a cancellation or redemption of Shares but may introduce a charge in the future.

Switch charge

Where a Shareholder in a Fund switches all or some of his Shares in a Fund (the "Original Shares") for class A or class B Shares in the same or another Fund (the "New Shares"), the ACD makes a switch charge of 1% on the investment in the New Shares. The switch charge is taken out of the proceeds from the sale of the Original Shares before such proceeds are invested in the New Shares. The ACD makes no charge for a switch of class I Shares to another Fund or another class in the same Fund. The ACD may in its discretion waive part or all of such charges.

Periodic charges

Investment management charge

The current rate of the ACD's periodic charge for investment management varies for different classes of Shares of the various Funds. The current rate of the charge for each class of Share for each Fund is set out in the details of the respective Funds in Appendix 1. The periodic charges accrue on each calendar day and are reflected in the price of Shares. The ACD's periodic charges are calculated daily on a particular Business Day by reference to the value of the property of the Funds calculated at the last valuation point on the previous Business Day. Payment of the accrued period charge is made monthly in arrears to the ACD.

General Administration Charge

The ACD may make a general administration charge ("GAC") which shall be paid out of the Scheme Property monthly in arrears and be calculated and accrued daily based on the value of the Scheme Property on the preceding business day.

The GAC is calculated as a percentage of the Scheme Property and the amount that each Share class in each Fund will pay will be dependent on the estimated costs attributable to each Share class across all Funds based on whether the class is a retail or institutional class.

The GAC reimburses the ACD for any costs, charges, fees and expenses in relation to the administration of the Funds which it pays on behalf of the Funds, which include (but are not limited to) the following:

- the fees and expenses payable in respect of the administration of the Funds, including fund accounting costs and to any respective delegates, unless otherwise specified in this Prospectus;
- the fees and expenses payable in respect of the Hedged Share classes (which shall only be charged to the relevant Hedged Share class);
- fees and expenses in respect of establishing and maintaining the register of Shareholders, including any sub-registers, and charges made by the Administrator, the Registrar, their respective delegates or any other entity relating to dealings in Shares and related functions;
- expenses incurred in producing, distributing and dispatching income and other payments to Shareholders;
- any costs in respect of the preparation and calculation of the net asset value and prices of Shares in the Funds and the publication and circulation thereof (including the costs of electronic data/information sources) and the costs of rating agencies and benchmark costs;
- fees of the FSA under the Financial Services and Markets Act 2000 or the corresponding fees of any regulatory authority in a country or territory outside the United Kingdom in which Shares are or may lawfully be marketed;
- the fees, charges, disbursements and expenses of the auditors, tax, legal and other professional advisers of the Company including (for the avoidance of doubt) any legal costs arising from any Shareholder action;
- any costs of convening and holding the annual general meeting and any other meetings of the Company, a Fund or a class of Shares of a Fund (including meetings convened on a requisition by holders and not including the ACD or an associate of the ACD), together with the costs of any associated documentation;
- costs in relation to allocations of income and related notifications to Shareholders;
- any costs incurred in modifying the Prospectus, the Instrument of Incorporation, the ACD Agreement and the Simplified Prospectus, Key Investor Information Document or any other pre-contractual disclosure required by law or regulation or any other relevant document required by the Regulations;
- any costs incurred in the preparation, translation, production (including printing) and distribution of annual, semi-annual or other reports or information provided for Shareholders, accounts, statements, contract notes and other similar documentation, any prospectus (including simplified prospectus (apart from the costs of distributing the simplified prospectus) Key Investor Information Document or any other pre-contractual disclosure document required by law or regulation (either in respect of the Company or a Fund) or other relevant documents required by the Regulations), any instrument of incorporation and any costs incurred as a result of periodic updates of or changes to any prospectus or instrument of incorporation and any other administrative expenses;
- costs incurred in taking out and maintaining any insurance policy in relation to the Company and/or its Directors (including the ACD) and the Depositary;
- costs incurred in company secretarial duties, including the cost of minute books and other documentation required to be maintained by the Company;
- any amount payable by the Company under any indemnity provisions contained in the Instrument of Incorporation or any agreement with any functionary of the Company;
- all costs incurred in connection with communicating with investors;
- all expenses of the ACD in buying or selling Shares (but excluding any commissions or similar payments as the Company is prohibited from making any such payments under the FSA Rules);

- all fees and expenses incurred in relation to the addition and initial organisation of any new Funds, the listing of Shares on any stock exchange, any offer of Shares (including the preparation, translation, printing and distribution of any Prospectus (with the exception of the costs and expenses of distributing any simplified prospectus) and listing documents) and the creation, conversion and cancellation of Shares in a new or existing Fund;
- the fees and expenses of the Depositary where it acts as custodian or of any custodian to whom it delegates this function;
- the fees and expenses of any paying agents, information agents or other entities which are required to be appointed by the Company by any regulatory authority;
- brokers' bond and errors and omissions insurance;
- royalties, licensing fees and other like payments in relation to the use of intellectual property; and
- any VAT that is payable on these charges where appropriate.

The current GAC for each Share class calculated as a percentage of the Scheme Property is set out in Appendix 1.

The GAC is based on a reasonable reflection of the fund administration costs which the ACD incurs across all of the Funds. As the GAC is calculated at a single rate across all of the Funds of the Company, for any single Fund the amount charged may be more or less than the costs that would be attributable to that Fund if, as with a more specific charging method for the recovery of costs, these would be allocated to and recovered from the Fund on an individual basis for each cost. For the avoidance of doubt the ACD is not accountable to Shareholders should the aggregate fees generated by the GAC in any period for a Fund be more than the fund administration costs actually attributable to that Fund. However, the GAC will be kept under review to ensure that it continues to appropriately reflect the fund administration costs incurred.

The ACD, in consultation with the Depositary, may waive the GAC in whole or in part in relation to any Fund where it considers it appropriate to do so, given the impact of the GAC would otherwise have on the total expense ratio of that Fund. After taking account of any waiver, the resulting rate of the GAC for each Fund will be reflected in the total expense ratio of that Fund.

Other remuneration

The ACD and its associates are under no obligation to account to the Depositary or to the Shareholders for any profits they may make on the issue of Shares.

Depositary's Fees and Expenses

Periodic Fee

The Depositary is paid a monthly periodic fee in remuneration for his services from the property of the Company. The Depositary fee is calculated, accrued and paid on the same basis as the ACD's periodic charges and is calculated by reference to the value of the property of the relevant Fund.

The current fee payable is:

0.03% on the first £20 million value of each Fund

0.02% on the next £30 million value of each Fund

0.01% on the balance with a minimum fee payable of £6,000 per Fund exclusive of VAT

Depositary's Expenses

In addition to the remuneration referred to above, the Depositary is entitled to be reimbursed out of the property of the Company for expenses properly incurred in performing duties imposed on it or exercising powers conferred upon it, by the COLL Sourcebook together with any VAT payable. The relevant duties may include without limitations:

- collection of income;
- submission of tax returns;
- handling of tax claims;
- preparation of the Depositary's annual reports;
- such other duties as the Depositary reasonably determines it is required to perform.

Transaction charges

In addition to the above periodic fee, the Depositary may levy transaction charges of such amounts as may be agreed by the ACD and the Depositary. Transaction charges vary from country to country. Currently, transaction fees range from £10 to £100. These charges shall accrue when the relevant transaction or deal is effected and shall be payable in arrears on the next following date on which payment of the Depositary's periodic remuneration is made or as soon as is reasonably practicable thereafter.

Other Expenses

The Company may pay out of the property of the Company the following expenses:

- (a) any stamp duty reserve tax paid by the ACD in relation to the cancellation of Shares (whether or not the amount of that tax had been deducted from the payments made to the Shareholders who cancelled those Shares);
- (b) stamp duties, taxes, brokerage or other expenses incurred in acquiring and disposing of investments;
- (c) interest on borrowings and charges incurred in negotiating borrowings;
- (d) certain liabilities on a merger or reconstruction arising after the transfer of property to the Company in consideration of the issue of property to the Company in consideration for the issue of Shares as more fully detailed in the FSA Rules;
- (e) taxation and duties payable by the Company; and
- (f) such other expenses as the ACD resolves are properly payable out of the Scheme Property of the Company and as may be permitted to be paid out of the Scheme Property under the terms of the FSA Rules as amended from time to time.

Initial Expenses and Promotion Costs

The costs of authorisation and incorporation of the Company were and the costs of the promotion of the Company are being paid by the ACD and its associates.

Allocation of Payments to income or capital

Fees and expenses are allocated against income, except that:

- the custodian's transaction charges are levied against capital; and
- in relation to the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Global Equity Income Fund, the Legg Mason Income Optimiser Fund and the Legg Mason US Equity Income Fund, the annual management charge is levied against capital.

Therefore, the capital growth of the relevant Funds may be adversely affected.

Allocation of Fees and Expenses between Funds

All the above fees and expenses will be charged as follows:

- fees and expenses which are directly attributable to a particular Share class of a Fund (including the costs and expenses of currency hedging transactions in relation to Hedged Shares) will be charged to that Share class;
- fees and expenses which are attributable to a particular Fund will be charged to that Fund. If there is more than one class of Share in issue in the Fund, they will normally be allocated pro rata to the value of the Scheme Property attributable to those Share classes;
- fees and expenses which are attributable to the Company generally will normally be charged to each of the Funds (and its Share classes) pro rata to the value of the Scheme Property attributable to those Funds (and its Share classes); and
- the ACD's periodic charge in respect of the Legg Mason US Equity Income Fund the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Equity Income Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Blue Chip Bond Fund may be treated as a capital expense and accordingly this may constrain capital growth.

The ACD has discretion to allocate these fees and expenses in a different manner which they consider fair to Shareholders.

VAT

The above fees and expenses are subject to value added tax where applicable.

There are currently some exemptions from VAT in respect of the ACD's charges for management of a Fund's investments and also its initial charge.

Income

Accounting Periods

The annual accounting period of the Company ends on the last day of February in each year. Details of the accounting periods and income allocation dates for each of the Funds are set out in Appendix 1.

Income Allocations

Allocations of income are made in respect of the income available for allocation in each accounting period.

The amount available for allocation in an accounting period is calculated by:

- taking the aggregate of the income property received or receivable for the account of the relevant Fund for that period;
- deducting the charges and expenses of that Fund paid or payable out of income property for that accounting period;
- adding the ACD's best estimate of tax relief on these expenses and charges; and
- making certain other adjustments which the ACD considers appropriate in relation to tax and other issues.

In addition, with effect from 1 March 2007, income on debt securities – such as bonds – has been calculated on an Effective Yield basis. The Effective Yield basis treats any projected capital gain or loss on a debt security (when compared to maturity or par value) as income and this, together with any future expected income streams on the debt security, is amortised over the life of that debt security (to maturity) to calculate an effective yield which is used for the calculation of distributable income in all Fixed Income Funds other than the Legg Mason Income Optimiser Fund. With regard to the Legg Mason Income Optimiser Fund, income on debt securities may be distributed on a coupon basis if this is higher than income calculated on an Effective Yield basis. This has the effect of increasing the distributable income for the Fund and constraining the Fund's capital performance to an equivalent extent.

Where there is more than one class of Share in issue, income available for allocation will be allocated between the Share classes based on the respective values of the property of those Share classes on a daily basis.

Income allocations to income Shares will normally be paid by bank transfer to the Shareholder's nominated bank account but may, if the ACD so agrees, be paid by another usual or common banking method and to or through such other person as may be requested by the Shareholder.

Income allocations to accumulation Shares will be automatically added to (and retained as part of) the capital assets of the relevant Fund.

Income Equalisation

Part of the purchase price of a Share in a Fund reflects the relevant share of accrued income of the Fund. The first allocation of income in respect of a Share issued during an accounting period includes a capital sum by way of income equalisation.

For Shares of each class the amount of income equalisation is calculated by dividing the aggregate of the amounts of income included in the price of Shares of that class issued in an accounting period by the number of those Shares and applying the resultant average to each of the Shares in question.

Unclaimed Income Distributions

Any income distribution unclaimed for a period of six years will be forfeited by the Shareholder. It will revert to the Company for the account of the relevant Fund or Funds. If the Fund(s) is no longer in existence such unclaimed distribution will revert to the Company in a manner which is fair to Shareholders of the Company generally.

Meetings and information for Shareholders

Approvals and notifications

Under the COLL Sourcebook, the ACD is required to seek your approval to, or notify you of, various types of changes to the Company and its Funds.

Fundamental changes

A fundamental change is a change or event which changes the purposes or nature of the Company or a Fund or may materially prejudice a Shareholder or alter the risk profile of the Fund or introduce any new type of payment out of the Scheme Property of the Fund. For fundamental changes the ACD must obtain Shareholder approval, normally by way of an Extraordinary Resolution (which needs 75% of the votes cast at the meeting to be in favour if the resolution is to be passed). An Extraordinary Resolution is required, for example, for a change of investment objective or policy of a Fund. For other resolutions, an Ordinary Resolution is required. For an Ordinary Resolution to be passed, more than 50% of the votes cast at the meeting must be in favour. The rights attached to a class of Share will not be varied and a conversion of Shares of a particular class of Shares into Shares of another class will not be effected without the sanction of an ordinary resolution passed at a class meeting of the holders of that class of Share.

The Company will not hold an annual general meeting (“AGM”). The ACD will be responsible for the appointment or reappointment of the auditors of the Company. General meetings may be convened at any time where there is a particular fundamental change proposed which requires the approval of Shareholders.

The convening and conduct of meetings of Shareholders and the voting rights of Shareholders at those meetings is governed by the provisions of the FSA Rules and the Company's Instrument of Incorporation. A meeting of all Shareholders in the Company, a Fund or a class of Shares of a Fund may be convened. All references below to a meeting apply equally to Company, Fund and class meetings.

- Requisitions of Meetings

The ACD may convene a meeting at any time.

Shareholders registered as holding at least 1/10th in value of all the relevant Shares then in issue may require that a meeting be convened. A requisition by Shareholders must state the objects of the meeting, be dated and be signed by those Shareholders and deposited at the head office of the Company. The ACD must convene a meeting no later than eight weeks after receipt of such requisition at the head office of the Company.

- Notice and Quorum

Shareholders will receive at least 14 days' written notice of a meeting (including the day of service of the notice and the day of the meeting). The notice will specify the day, hour and place of the meeting and the resolutions to be put to the meeting. They are entitled to be counted in the quorum and vote at a meeting either in person or by proxy. The quorum for a meeting is two Shareholders, present in person or by proxy.

The ACD will not be counted in the quorum for a meeting. The ACD and its associates are not entitled to vote at any meeting, except in respect of Shares which the ACD or an associate hold on behalf of or jointly with a person who, if himself the registered Shareholder, would be entitled to vote and from whom the ACD or associate has received voting instructions.

- **Voting Rights**

Every Shareholder who (being an individual) is present in person or (being a corporation) by its properly authorised representative shall have one vote on a show of hands.

A Shareholder may vote in person or by proxy (a person appointed by the Shareholder to attend and vote in place of the Shareholder) on a poll vote. A poll may be demanded by the chairman of the meeting (who shall be a person appointed by the Depositary, or in the absence of such a person, a person nominated by the Shareholders), the Depositary or any two Shareholders. On a poll each Shareholder shall in respect of each Share held by him have the proportion of all the voting rights attaching to the Shares in issue that the price of the Share bears to all the aggregate price of all the Shares in issue.

A Shareholder entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Significant changes

A significant change is a change or event which is not fundamental but which affects the Shareholder's ability to exercise his rights in relation to his investment or would reasonably be expected to cause the Shareholder to reconsider his participation in a Fund or results in any increased payments out of the Scheme Property to the ACD or an associate of the ACD or materially increases any other type of payments out of the Scheme Property of a Fund. The ACD must give reasonable prior notice (of not less than sixty days) in respect of any such proposed change to the operation of the Company or a Fund.

Notifiable changes

A notifiable change is a change or event of which a Shareholder must be made aware, but, although considered by the ACD not to be insignificant, is not a fundamental or significant change. The ACD must inform Shareholders in an appropriate manner and time scale of any such notifiable changes that are reasonably likely to affect or have affected the operation of the Company or a Fund.

Reports to Shareholders

The annual reports of the Company will be published on or before 30 June and half yearly reports will be published on or before 31 October. Both short reports and long versions will be produced. Copies of the reports may be obtained from the ACD or inspected at the ACD's offices at 201 Bishopsgate, London EC2M 3AB during office hours.

The short reports published in respect of each annual accounting period and half-yearly accounting period will be sent to each Shareholder (or, in the case of joint Shareholders, the first named Shareholder) entered on the register as Shareholders as at close of business on the last day of the relevant accounting period.

UK Taxation

The information given below does not constitute legal or tax advice and prospective investors should consult their own professional advisers as to the implications of their subscribing for, purchasing, holding, switching or disposing of Shares under the laws of the jurisdiction in which they may be subject to tax.

The Company

Each Fund is treated as a separate open-ended investment company resident in the UK for the purposes of UK taxation.

As the Funds are sub-funds of an open-ended investment company to which The Open-Ended Investment Companies (Tax) Regulations 2001 apply, the Company and its Funds are exempt from UK tax on capital gains realised on the disposal of investments held within them.

The Funds are each subject to corporation tax at a rate equal to the basic rate of income tax (currently 20%) on certain types of income but after deducting allowable expenses (which may include the gross amount of any interest type distributions made and management expenses).

The Government announced in April 2009 a new regime for tax elected funds to come into effect from 1 September 2009. At the date of this Prospectus, no election for any of the Funds to be treated as a tax elected fund is proposed to be made. However the ACD will monitor the development of the legislation.

Shareholders

Income

The type of distribution made by a Fund will depend on its investments.

- Fixed Income Funds

Funds with more than 60% of their investments invested throughout an accounting period in, broadly speaking, interest paying investments will make interest distributions. These distributions are paid net of basic rate income tax (currently 20%) with certain exceptions (see below). The tax deducted from the interest distribution will satisfy the tax liability of Shareholders subject to basic (currently 20%) rate income tax. Shareholders liable to income tax at the higher (currently 40%) rate must pay further tax of currently 20% of the gross interest payment. The Budget 2009 announced a new additional rate of income tax of 50% applicable to taxable income above £150,000 commencing from 6 April 2010. UK residents not liable to tax on some or all of their income may reclaim from HM Revenue & Customs the appropriate part of the income tax deducted.

Certain categories of Shareholders, including UK registered pension schemes, UK registered charities and companies resident in the UK may be, if they demonstrate to the ACD's satisfaction that they fall within one of the specified categories, entitled to receive interest distributions gross subject to the minimum investment amounts and any other eligibility requirements of the ACD. The ACD reserves the right to withhold tax, reclaim tax paid or pass on any charges it may incur if the information provided by such Shareholders does not meet HM Revenue & Customs' requirements for receipt of interest distributions gross.

Shares held within an ISA are also entitled to receive interest distributions without deduction of income tax.

Where a Fund has invested more than 15% of its assets in money debts, the distributions made by the Fund could constitute savings income payments for the purposes of the EU Savings Directive. This means that, where such payments are made to individuals resident in an EU Member State other than the UK or to individuals resident in certain associated and dependent territories of the EU Member States, details of the payments and payees may be reported to HM Revenue & Customs. To the extent that the distribution is not reportable under the EU Savings Directive, details of interest distributions from a Fund paid to individuals with addresses in the United Kingdom and other specified countries (including Australia, Canada and the United States of America) must be reported to HM Revenue & Customs by the ACD along with the names and addresses of those individuals on receipt of a notice from HM Revenue & Customs.

The attention of Shareholders within the charge to UK corporation tax is drawn to the provisions of Section 490 Corporation Tax Act 2009. Under these provisions, a holding in a Fund which, by way of example, holds more than 60% of its investments in interest paying investments, derivative contracts whose underlying subject matter is such investments or certain contracts for differences will be taxed as a creditor relationship of the Shareholder. That creditor relationship can only be taxed under a fair value basis of accounting. This means that the Shareholder within the charge to corporation tax can be charged to tax on unrealised profits in each accounting period.

- Equity Funds

All Funds which do not meet the requirements to pay interest distributions will pay dividend distributions. UK resident individuals who receive dividend distributions will be entitled to a tax credit in relation to any such distribution generally available for off-set against their total income tax liability. At current rates the value of the tax credit is equal to 10% of the aggregate of the amount deemed to be distributed and the tax credit itself. The tax credit is aggregated with the distribution in computing the Shareholder's income for tax purposes. Shareholders whose marginal income is liable to tax at the basic rate only will have no further liability to tax on such distributions. Higher rate taxpayers will be liable to tax on the aggregate of the distribution and the tax credit at the higher rate of 32.5%, against which liability they will be able to offset the tax credit amounting to an effective rate of income tax at 25% on the distribution alone. In addition, from 6 April 2010, certain taxpayers will be liable to tax on the aggregate of the distribution and the tax credit at the additional rate of 42.5% against which they will be able to offset the tax credit amounting to an effective rate of income tax at 36.1% on the distribution alone.

Corporate Shareholders who receive dividend distributions may have to apply the Corporate Streaming rules and divide the dividend distribution into two parts (the division will be indicated on the tax voucher).

Capital Gains

Shareholders who are resident or, if applicable, ordinarily resident in the UK for tax purposes may be liable to capital gains tax or, if a company, corporation tax on chargeable gains arising from the sale, switch or other disposal of Shares (but not on switches between classes of Share within a Fund).

When the first income allocation is made to Shares purchased during an accounting period, the amount representing the income equalisation in the price of the Shares is a return of capital and is not taxable in the hands of Shareholders. This amount should be deducted from the cost of Shares in computing any capital gains realised on the sale, switch or other disposal.

Stamp Duty Reserve Tax (SDRT)

SDRT is a tax of 0.5% on transactions in Shares and is calculated using a prescribed formula.

The ACD has the power to recover SDRT on the buying and selling of Shares. The SDRT charge will be made to the capital account of all non-exempt funds. The charge will be accrued on a weekly basis when the actual liability for the charging period is known.

These statements are based on UK law and HM Revenue & Customs practice as known at the date of this document. Shareholders are recommended to consult their professional advisers if they are in any doubt about their tax position.

General Matters

The following documents may be inspected free of charge between 9.00 a.m. and 5.00 p.m. on every Business Day at the offices of the ACD at 201 Bishopsgate, London EC2M 3AB:

- (a) the short reports and long form reports of the Company;
- (b) the Instrument of Incorporation; and
- (c) this Prospectus.

Shareholders may obtain copies of these documents and the agreement appointing the ACD between the Company and the ACD free of charge from the same address.

Communications

Documents will be sent to Shareholders by post to the address set out in the register of Shareholders. Where a Share is registered in the name of more than one person, documents will be sent to the person first appearing as a Shareholder in the register.

Winding Up of the Company or a Fund

The Company

The Company may be wound up:

- by the court as an unregistered company under Part V of the Insolvency Act 1986; or
- if the Company is solvent, under the provisions of the COLL Sourcebook.

To wind up the Company under the FSA Rules, the directors have to notify the FSA of the proposal, confirming to the FSA that the Company will be able to meet all its liabilities within the following twelve months.

The Company can be wound up under the FSA Rules:

- (a) if an extraordinary resolution is passed to that effect; or
- (b) if the FSA agrees to a request by the directors for revocation of the order in respect of the Company (provided no material change in any relevant factor occurs prior to the date of the revocation); or
- (c) on the expiration of any period for the duration of the Company or the occurrence of an event specified in the Instrument of Incorporation as triggering a winding up of the Company.

On a winding up under the FSA Rules:

- Part 5 of the COLL Sourcebook (concerning investment and borrowing powers) and Parts 6.2 and 6.3 of the COLL Sourcebook (concerning dealing and pricing), will cease to apply;
- the Company will cease to issue and cancel Shares;
- the ACD will stop selling and redeeming Shares; and

- no transfer of Shares will be registered and no change to the register will be made without the sanction of the directors.

The Company will cease to carry on its business except as is required for its beneficial winding up. The ACD shall as soon as practicable, realise assets of the Company and pay the respective shares of the proceeds to Shareholders in accordance with the FSA Rules.

A Fund

A Fund of the Company may be wound up under the FSA Rules individually:

- where any of the events set out in (a), (b) or (c) above occurs in respect of that particular Fund;
- or
- if the Directors are of the opinion that it is desirable to wind up the Fund.

If so, the assets of the Fund will be realised and the Shareholders in the Fund will receive their respective shares of the proceeds, net of liabilities and the expenses of the termination.

A Fund may also be terminated in connection with its amalgamation or reconstruction. In that case Shareholders in the Fund will become entitled to receive shares or units in another regulated collective scheme in exchange for their Shares in the Fund.

Complaints

If a Shareholder has any complaint concerning the ACD's role in respect of the Company and its Funds, the Shareholder may make a formal complaint to the Complaints Manager at the ACD, who will undertake a full investigation. If the complaint is unresolved, the Shareholder may refer it to the Financial Ombudsman, South Quay Plaza, 183 Marsh Wall, London E14 9SR. A copy of the ACD's internal complaint handling procedure is available on request. In the event of the ACD being unable to pay a valid claim against it, the Shareholder may be entitled to receive compensation from the Financial Services Compensation Scheme, 7th Floor, Lloyds Chambers, Portsoken Street, London E1 8BN.

Strategy for the exercise of voting rights

The ACD has a strategy for determining when and how voting rights attached to ownership of Scheme Property are to be exercised for the benefit of each Fund. A summary of the voting rights strategy, as well as details of the actions taken on the basis of this strategy, are available from the ACD at no charge on request.

Appendix 1

Details of each of the Funds

Fixed Income Funds

Legg Mason Global Multi Strategy Bond Fund
Legg Mason Global Blue Chip Bond Fund
Legg Mason Global Credit Absolute Return Fund
Legg Mason Income Optimiser Fund

Equity Funds

Legg Mason Asia Pacific Fund
Legg Mason Continental European Equity Fund
Legg Mason Global Equity Income Fund
Legg Mason Japan Equity Fund
Legg Mason UK Equity Fund
Legg Mason US Equity Fund
Legg Mason US Equity Income Fund
Legg Mason US Smaller Companies Fund

Legg Mason Global Multi Strategy Bond Fund

1. Investment Objective and Policy

Objective

To maximise total return through income and capital appreciation by diversifying across a range of fixed income securities, sectors and currencies.

Policy

The Fund seeks to achieve its objective by investing globally, principally in debt and fixed income securities denominated in currencies of a variety of developed and emerging market countries. The Fund invests across the major fixed income sectors including high yielding and emerging market debt securities. A minimum of 80% of the Fund's net asset value will be invested in debt and fixed income securities that are either denominated in pounds sterling or, if denominated in other currencies, hedged to pounds sterling. Consequently, no more than 20% of the Fund's net asset value may be exposed to currencies other than pounds sterling. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus, including derivatives, for investment purposes as well as efficient portfolio management purposes, and collective investment schemes.

2. Investment Manager

The Fund's investment manager is Western Asset Management Company Limited which is authorised and regulated by the FSA. The principal business activity of Western Asset Management Company Limited is investment management.

The ACD has appointed Western Asset Management Company Limited under an agreement dated 2 March 2009 (as amended by an amendment agreement dated 17 March 2011) between the Company, Western Asset Management Company Limited and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom).

4.	Class of Shares	Class A Income Shares Class B Income Shares Class I Income Shares Class I Accumulation Shares (Gross)		
5.	Charges	Class A	Class B	Class I
	Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%	none
	ACD's investment management charge calculated on the value of the Fund	1.25% p.a.	0.80% p.a.	0.40% p.a.
	GAC	0.25% p.a.	0.25% p.a.	0.25% p.a.
6.	Accounting Dates			
	Annual Accounting Date	Last day of February		
	Interim accounting periods	Interim accounting periods end on 31 August		
7.	Income Allocation Dates			
	Annual Income Allocation Date	30 April.		
	Interim Income Allocation Dates	31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January, 28 February, 31 March; commencing 31 July 2008.		
8.	Reports	Annual : by 30 June		
		Interim : by 31 October		

Legg Mason Global Blue Chip Bond Fund

(Formerly the Sterling Corporate Plus Bond Fund, and prior to that the Legg Mason Strategic Bond Fund)

1. Investment Objective and Policy

Objective

To achieve a total return via income yield and capital appreciation while seeking to mitigate capital erosion.

Policy

The Fund seeks to achieve its objective by investing in a range of fixed interest securities including, but not limited to, corporate bonds, government bonds, asset backed securities and mortgage backed securities. A minimum of 80% of the Fund's net asset value will be invested in debt and fixed income securities that are either denominated in pounds sterling or, if denominated in other currencies, hedged to pounds sterling and which are rated A minus or above (as measured by Standard and Poors or an equivalent external rating agency). Consequently, no more than 20% of the Fund's net asset value may be exposed to currencies other than pounds sterling. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus, including derivatives, for investment purposes as well as efficient portfolio management purposes, and collective investment schemes.

2. Investment Manager

The Fund's investment manager is Western Asset Management Company Limited which is authorised and regulated by the FSA. The principal business activity of Western Asset Management Company Limited is investment management.

The ACD has appointed Western Asset Management Company Limited under an agreement dated 2 March 2009 (as amended by an amendment agreement dated 17 March 2011) between the Company, Western Asset Management Company Limited and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4.	Class of Shares	Class A Income Shares	Class B Income Shares	Class I Income Shares
5.	Charges	Class A	Class B	Class I
	Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%	none
	ACD's investment management charge calculated on the value of the Fund	1.00% p.a.	0.60% p.a.	0.35% p.a.
	GAC	0.40% p.a.	0.40% p.a.	0.40% p.a.
6.	Accounting Dates			
	Annual Accounting Date	Last day of February		
	Interim accounting periods	Interim accounting periods end on 31 August		
7.	Income Allocation Dates			
	Annual Income Allocation Date	30 April.		
	Interim Income Allocation Dates	31 July, 31 October, 31 January		
8.	Reports			
		Annual : by 30 June		
		Interim : by 31 October		

Legg Mason Global Credit Absolute Return Fund

THIS FUND IS NOT YET AVAILABLE FOR SUBSCRIPTION

1. Investment Objective and Policy

Objective

To maximise absolute return in all market conditions over a rolling twelve month period, through income and capital appreciation.

Policy

The Fund seeks to achieve its objective by investing at least 70% of its net asset value in (i) debt securities, convertible securities and preferred shares that are listed or traded on regulated markets; (ii) units or shares of collective investment schemes; and (iii) financial derivative instruments, such minimum percentage consisting solely of the assets set out at (i) above, or a combination of (i) and (ii), of (i) and (iii), or of (i), (ii) and (iii). The Fund will invest in a combination of investment grade and non-investment grade bonds, although no more than 50% of the Fund's net asset value may be comprised of investments that at the time of purchase are rated below investment grade (as measured by Standard & Poor's, Moody's or an equivalent external rating agency) or, if unrated, are deemed by the Fund's investment manager to be of comparable credit quality. A minimum of 80% of the Fund's net asset value will be invested in securities or derivatives that are either denominated in Sterling or, if denominated in other currencies, are hedged to Sterling. No more than 20% of the Fund's net asset value may be exposed to currencies other than Sterling. No more than 10% of the Fund's net asset value may be invested in units or shares of collective investment schemes. The Fund may invest up to 10% of its net asset value in common stock and derivatives on equity securities.

The Fund seeks to achieve a target investment return of 8% per annum on a rolling 3 year basis.

The Fund may also invest in other transferable securities, money market instruments and deposits. When deemed appropriate by the Fund's investment manager, the Fund may hold

synthetic short positions, on individual securities, indices, currencies and/or interest rates.

The market risk of the Fund will be measured using the value-at-risk (VaR) methodology. The absolute VaR of the Fund will not exceed 20% of the Fund's net asset value.

The Fund's leverage risk will be measured using the commitment approach. It is anticipated that the Fund's leverage, as measured using the commitment approach methodology, will generally not exceed 500% of its net asset value. However, the Fund's level of leverage may vary over time, but is not expected to exceed 700% of its net asset value.

Although the Fund seeks to maximise absolute return, this is not guaranteed; the objective may not be achieved and the Fund may experience negative returns.

2. **Investment Manager**

The Fund's investment manager is Western Asset Management Company Limited which is authorised and regulated by the FSA. The principal business activity of Western Asset Management Company Limited is investment management.

The ACD has appointed Western Asset Management Company Limited under an agreement dated [] between the Company, Western Asset Management Company Limited and the ACD.

3. **Currency of Denomination**

Pounds Sterling (or other legal currency of the United Kingdom)

4. **Class of Shares**

Class A Income Shares
Class B Income Shares
Class I Income Shares

5. **Charges**

	Class A	Class B	Class I
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%	none
ACD's investment management charge calculated on the value of the Fund	[1.65]% p.a.	[1.20]% p.a.	[1.00]% p.a.

6. **Accounting Dates**

Annual Accounting Date Last day of February

Interim accounting periods Interim accounting periods end on 31 August

7. **Income Allocation Dates**

Annual Income Allocation Date 30 April.

Interim Income Allocation Dates 31 May, 30 June, 31 July, 31 August, 30 September, 31 October, 30 November, 31 December, 31 January, 28 February, 31 March; commencing [•].

8. **Reports**

Annual : by 31 May

Interim : by 31 October

9. **Initial offer period**

When the Fund is made available for subscription there will be an initial offer of shares will be for a period of 21 days. The initial price will be 100 pence. No subscription monies will be invested during the initial offer period. No interest will accrue on the subscription monies during the initial offer period. The ACD will commence management of the fund following the end of the initial offer period.

Legg Mason Income Optimiser Fund

1. Investment Objective and Policy

Objective

To maximise income yield in all market conditions over a rolling 3 – 5 year period with a secondary objective of capital preservation.

Policy

The Fund seeks to achieve its objective by investing at least 70% of its net asset value in (i) government and corporate debt securities, convertible securities, mortgage backed securities, asset backed securities, common stock and preferred shares that are listed or traded on regulated markets; (ii) units or shares of collective investment schemes; and (iii) financial derivative instruments, such minimum percentage consisting solely of the assets set out at (i) above, or a combination of (i) and (ii), of (i) and (iii), or of (i), (ii) and (iii). The Fund will invest in a combination of investment grade and below investment grade bonds (as measured by Standard & Poor's, Moody's or an equivalent external rating agency), preferred shares, convertible bonds, common stock, spot and forward foreign exchange contracts, credit default swaps, equity options and other financial derivative instruments. A minimum of 70% of the Fund's net asset value will be invested in securities or derivatives that are either denominated in Sterling or, if denominated in other currencies, are hedged to Sterling. No more than 10% of the Fund's net asset value may be invested in units or shares of collective investment schemes.

The Fund may also invest in other transferable securities, money market instruments and deposits. When deemed appropriate by the Fund's investment manager, the Fund may hold synthetic short positions, on individual securities, indices, currencies and/or interest rates.

The Fund seeks to achieve a target gross income yield of 8% per annum over a rolling 3 – 5 year period.

Although the Fund seeks to maximise income yield in all market conditions with a secondary objective of capital preservation, neither of these

objectives is guaranteed; the objectives may not be achieved; the Fund may experience negative returns and investors may not get back the amount originally invested.

2. Investment Manager

The Fund's investment manager is Brandywine Global Investment Management, LLC which is authorised by the SEC. The principal business activity of Brandywine Global Investment Management, LLC is investment management.

The ACD has appointed Brandywine Global Investment Management, LLC under an agreement dated 19 December 2011 between the Company, Brandywine Global Investment Management, LLC and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom).

4. Class of Shares

Class A Income Shares
Class B Income Shares
Class I Income Shares

5. Charges

	Class A	Class B	Class I
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%	none
ACD's investment management charge calculated on the value of the Fund	1.25% p.a.	0.80% p.a.	0.65% p.a.
GAC	0.80% p.a.	0.80% p.a.	0.80% p.a.

6. Accounting Dates

Annual Accounting Date	Last day of February
Interim accounting periods	Interim accounting periods end on 31 August

7. Income Allocation Dates

Annual Income Allocation Date	30 April.
Interim Income Allocation Dates	31 July, 31 October, 31 January; commencing 30 April 2012.

8. Reports

Annual : by 30 June
Interim : by 31 October

Legg Mason Asia Pacific Fund

1. Investment Objective and Policy

Objective

To achieve capital growth, principally through investment in securities of companies based in the Asia Pacific region, excluding Japan.

Policy

The Fund seeks to achieve its objective by investing principally in securities of companies domiciled or having their principal activities in Asia and Pacific markets excluding Japan and including, but not limited to Australia, China, India, New Zealand and South Korea. Investment will be focused in securities of companies believed to afford attractive opportunities for long-term capital appreciation. The Fund may also invest in companies in the form of Depositary Receipts. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Batterymarch Financial Management, Inc., which is authorised by the SEC. The ultimate holding company of the investment manager is Legg Mason, Inc. The principal business activity of Batterymarch Financial Management, Inc. is investment management.

The ACD has appointed Batterymarch Financial Management, Inc. under an agreement dated 1 January 2004 between the Company, Batterymarch Financial Management, Inc. and the ACD, as replaced by a replacement agreement dated 18 August 2008 between the Company, Batterymarch Financial Management, Inc. and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
Class B Accumulation Shares

5.	Charges	Class A	Class B
	Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%
	ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	1% p.a.
	GAC	1.00% p.a.	1.00% p.a.
6.	Accounting Dates		
	Annual Accounting Date	Last day of February	
	Interim accounting periods	Interim accounting periods end on 31 August	
7.	Income Allocation Dates		
	Annual Income Allocation Date	30 April.	
	Interim Allocation Dates	None	
8.	Reports		
		Annual : by 30 June	
		Interim : by 31 October	

Legg Mason Continental European Equity Fund

1. Investment Objective and Policy

Objective

To achieve capital growth through investment in securities of European companies.

Policy

The Fund seeks to achieve its objective by investing principally in equity securities of companies that are listed or traded on regulated markets and that are domiciled in or having their principal activities in Europe. The Fund may invest in the securities of companies domiciled in or having their principal activities in emerging markets in Europe. The Fund may also invest in other investments as permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Batterymarch Financial Management, Inc. which is authorised by the SEC. The ultimate holding company of the investment manager is Legg Mason, Inc. The principal business activity of Batterymarch Financial Management, Inc. is investment management.

The ACD has appointed Batterymarch Financial Management, Inc. under an agreement dated 1 January 2004 between the Company, Batterymarch Financial Management, Inc. and the ACD, as replaced by a replacement agreement dated 18 August 2008 between the Company, Batterymarch Financial Management, Inc. and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
Class B Accumulation Shares (not currently available)

5.	Charges	Class A	Class B
	Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%
	ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	1% p.a.
	GAC	1.05% p.a.	1.05% p.a.
6.	Accounting Dates		
	Annual Accounting Date	Last day of February	
	Interim accounting periods	Interim accounting periods end on 31 August	
7.	Income Allocation Dates		
	Annual Income Allocation Date	30 April.	
	Interim Income Allocation Dates	None	
8.	Reports		
		Annual : by 30 June	
		Interim : by 31 October	

Legg Mason Global Equity Income Fund

1. Investment Objective and Policy

Objective

To achieve income and capital growth through investment primarily in a range of equity and equity-related securities.

Policy

The Fund seeks to achieve its objective by investing globally in quality companies that are trading at low prices relative to their intrinsic value. There is a focus on dividend yield and potential for capital growth.

The Fund may also invest in other investments as permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Global Currents Investment Management, LLC which is authorised and regulated by the SEC. The principal business activity of Global Currents Investment Management, LLC is investment management.

The ACD has appointed Global Currents Investment Management, LLC under an agreement dated 24 April 2008 between the Company, Global Currents Investment Management, LLC and the ACD.

3. Currency of Denomination United

Pounds Sterling (or other legal currency of the Kingdom)

4. Class of Shares

Class A Income / Accumulation Shares
Class B Income / Accumulation Shares

5. Charges

	Class A	Class B
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1.00%
ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	1.00% p.a.
GAC	0.50% p.a.	0.50% p.a.

6. **Accounting Dates**

Annual Accounting Date Last day of February

Interim accounting periods Interim accounting periods end on 31 August

7. **Income Allocation Dates**

Annual Income Allocation Date 30 April

Interim Income Allocation Dates 31 July, 31 October, 31 January; commencing 31 October 2008.

8. **Reports**

Annual : by 30 June

Interim : by 31 October

Legg Mason Japan Equity Fund

1. Investment Objective and Policy

Objective To achieve capital growth through investment in securities of Japanese companies.

Policy The Fund seeks to achieve its objective by investing principally in the securities of Japanese companies, which have above average growth prospects relative to the shares of Japanese companies as a whole. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Shiozumi Asset Management Company Limited which is regulated by the Financial Services Agency of Japan. The principal business activity of Shiozumi Asset Management Company Limited is investment management.

The ACD has appointed Shiozumi Asset Management Company Limited under an Agreement dated 17 July 2007 between the Company, Shiozumi Asset Management Company Limited, the ACD and Hideo Shiozumi, as replaced by a replacement agreement dated 25 March 2009 between the Company, Shiozumi Asset Management Co. Ltd., the ACD and Hideo Shiozumi (amended by an amendment agreement dated 17 December 2009).

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
Class B Accumulation Shares (available from 1 December 2004)

5. Charges

	Class A	Class B
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1.00%
ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	0.90% p.a.
GAC	0.65% p.a.	0.65% p.a.

6. **Accounting Dates**

Annual Accounting Date

Last day of February

Interim accounting periods

Interim accounting periods end on 31 August

7. **Income Allocation Dates**

Annual Income Allocation Date

30 April

Interim Income Allocation Dates

None

8. **Reports**

Annual : by 30 June

Interim : by 31 October

Legg Mason UK Equity Fund

1. Investment Objective and Policy

Objective To achieve capital growth through investment in quoted securities of UK companies.

Policy The Fund seeks to achieve its objective by investing principally in large and mid-cap UK company shares listed on the London Stock Exchange and being constituents of the FTSE All Share Index. Income will not be a primary objective. The Fund may also invest in other investments as permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Batterymarch Financial Management, Inc. which is authorised by the SEC. The ultimate holding company of the investment manager is Legg Mason, Inc. The principal business activity of Batterymarch Financial Management, Inc. is investment management.

The ACD has appointed Batterymarch Financial Management, Inc. under an agreement dated 1 January 2004 between the Company, Batterymarch Financial Management, Inc. and the ACD, as replaced by a replacement agreement dated 18 August 2008 between the Company, Batterymarch Financial Management, Inc. and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
Class B Accumulation Shares (not currently available)

5. Charges

	Class A	Class B
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1.00%
ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	0.90% p.a.
GAC	0.55% p.a.	0.55% p.a.

6. **Accounting Dates**

Annual Accounting Date

Last day of February

Interim accounting periods

Interim accounting periods end on 31 August

7. **Income Allocation Dates**

Annual Income Allocation Date

30 April

Interim Income Allocation Dates

None

8. **Reports**

Annual : by 30 June

Interim : by 31 October

Legg Mason US Equity Fund

1. Investment Objective and Policy

Objective

To achieve capital growth, principally through investment in securities of US issuers.

Policy

The Fund seeks to achieve its objective by investing principally in securities of US issuers which the investment manager believes are undervalued. The Fund may also invest up to 20% of its assets in securities of non-US issuers. At least 50% of the net asset value of the Fund will be invested in equity securities. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Legg Mason Capital Management LLC, which is authorised by the SEC. The ultimate holding company of the investment manager is Legg Mason, Inc. The principal business activity of Legg Mason Capital Management LLC is investment management.

The ACD has appointed Legg Mason Capital Management LLC under an Agreement dated 11 August 2003 between the Company, Legg Mason Capital Management Inc. and the ACD, which was novated to Legg Mason Capital Management, LLC. with effect from 1 April 2011.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
 Class B Accumulation Shares
 Class A Accumulation (Hedged) Shares (not currently available)
 Class B Accumulation (Hedged) Shares (not currently available)

5. Charges	Class A	Class B
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%
ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	1% p.a.
GAC (for non Hedged Shares)	0.40% p.a.	0.40% p.a.
GAC (for Hedged Shares)	[]% p.a.	[]% p.a.
6. Accounting Dates		
Annual Accounting Date	Last day of February	
Interim accounting periods	Interim accounting periods end on 31 August	
7. Income Allocation Dates		
Annual Income Allocation Date	30 April.	
Interim Allocation Dates	None	
8. Reports	Annual : by 30 June	
	Interim : by 31 October	

Legg Mason US Equity Income Fund

1. Investment Objective and Policy

Objective

To provide a high level of income with a secondary investment objective of long-term capital appreciation. Given the income generation and long-term capital appreciation objectives of the Fund, the overall objective is that of total return.

Policy

Under normal market conditions the Fund seeks to achieve its objective by investing at least 70% of its net assets in US equity or US equity related securities, which the investment manager believes have the ability to maintain or increase dividends or distributions over the longer term with a view to obtaining a yield higher than the Historic Yield on the Russell 3000 Value Index.

The Fund may from time to time invest in preferred and convertibles securities as well as fixed-income securities of any quality, when the investment manager believes such securities provide a compelling yield opportunity while keeping with the Fund's overall objective of total return. The total amount invested in such assets will not exceed 30% of the Fund's net assets under normal market conditions. The Fund may invest up to 20% of its net assets in equity or equity related securities of non-US issuers (with market capitalisations generally of at least \$10 billion). The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time to time and as explained in the Prospectus, including collective investment schemes.

The investment manager's investment process emphasises the individual security selection of companies which they believe have assets or earnings power that are either unrecognized or undervalued.

2. Investment Manager

The Fund's investment manager is ClearBridge Advisors, LLC which is authorised and regulated by the SEC. The principal business activity of

ClearBridge Advisors, LLC is investment management.

The ACD has appointed ClearBridge Advisors, LLC under an agreement dated 10 August 2009 between the Company, ClearBridge Advisors, LLC and the ACD.

3. **Currency of Denomination** Pounds Sterling (or other legal currency of the United Kingdom)
4. **Class of Shares**
 Class A Income Shares
 Class B Income Shares
 Class I Income / Accumulation Shares
 Class I Income (Hedged) Shares
 Class A Income (Hedged) Shares (not currently available)
 Class B Income (Hedged) Shares (not currently available)
 Class I Accumulation (Hedged) Shares (not currently available)
- | 5. Charges | Class A | Class B | Class I |
|---|------------|------------|------------|
| Entry charge (as a percentage of the amount subscribed before investment) | 4.25% | 1% | none |
| ACD's investment management charge calculated on the value of the Fund | 1.5% p.a | 1% p.a. | 0.75% p.a. |
| GAC (for non Hedged Shares) | 0.80% p.a. | 0.80% p.a. | 0.80% p.a. |
| GAC (for Hedged Shares) | 0.90% p.a. | 0.90% p.a. | 0.90% p.a. |
6. **Accounting Dates**
 Annual Accounting Date Last day of February
 Interim accounting periods Interim accounting periods end on 31 August
7. **Income Allocation Dates**
 Annual Income Allocation Date 30 April
 Interim Income Allocation Dates 31 July, 31 October, 31 January; commencing 30 April 2012.
8. **Reports**
 Annual : by 30 June
 Interim : by 31 October

Legg Mason US Smaller Companies Fund

1. Investment Objective and Policy

Objective

To achieve capital growth, principally through investment in securities of smaller US companies.

Policy

The Fund seeks to achieve its objective by investing principally in the securities of U.S. smaller companies with emphasis placed on finding companies that possess excellent business strengths and/or prospects, high internal rates of return and low leverage, and whose securities are trading significantly below the investment manager's estimate of their current worth. The Fund may also invest in other investments to the extent permitted by the FSA Rules as applicable from time and as explained in the Prospectus.

2. Investment Manager

The Fund's investment manager is Royce & Associates, LLC, which is registered as an investment advisor by the SEC. The ultimate holding company of the investment manager is Legg Mason, Inc. The principal business activity of Royce & Associates, LLC is investment management.

The ACD has appointed Royce & Associates, LLC. under an agreement dated 8 March 2004 between the Company, Royce & Associates, LLC. and the ACD, as replaced by a replacement agreement dated 10 December 2008 between the Company, Royce & Associates, LLC and the ACD.

3. Currency of Denomination

Pounds Sterling (or other legal currency of the United Kingdom)

4. Class of Shares

Class A Accumulation Shares
 Class B Accumulation Shares
 Class A Accumulation (Hedged) Shares
 Class B Accumulation (Hedged) Shares

5. Charges	Class A	Class B
Entry charge (as a percentage of the amount subscribed before investment)	4.25%	1%
ACD's investment management charge calculated on the value of the Fund	1.5% p.a.	1% p.a.
GAC (for non Hedged Shares)	0.35% p.a.	0.35% p.a.
GAC (for Hedged Shares)	0.45% p.a.	0.45% p.a.
6. Accounting Dates		
Annual Accounting Date	Last day of February	
Interim accounting periods	Interim accounting periods end on 31 August	
7. Income Allocation Dates		
Annual Income Allocation Date	30 April.	
Interim Allocation Dates	None	
8. Reports	Annual : by 30 June	
	Interim : by 31 October	

Appendix 2

Eligible Securities Markets and Eligible Derivatives Markets

All the Funds may deal through:

- a) securities markets which are regulated markets (as defined in the glossary to the FSA Rules);
- b) markets established in an EEA State which are regulated, operate regularly and are open to the public (which at the date of this prospectus includes the UK, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden and Slovenia); and
- c) the securities markets and derivatives markets indicated in the table below.

For the Legg Mason Global Multi Strategy Bond Fund and the Legg Mason Global Equity Income Fund the regulated markets shall also comprise any investments listed, quoted or dealt in on any stock exchange in the U.S., Australia, Canada, Japan, New Zealand or Switzerland which is a stock exchange within the meaning of the law of the country concerned relating to stock exchanges, the market organised by the International Securities Markets Association, NASDAQ, the market in U.S. government securities conducted by primary dealers regulated by the Federal Reserve Bank of New York, the over-the-counter market in the U.S. conducted by primary and secondary dealers regulated by the Securities and Exchange Commission and by the National Association of Securities Dealers, Inc. and by banking institutions regulated by the U.S. Comptroller of the Currency, the Federal Reserve System or Federal Deposit Insurance Corporation, the market conducted by listed money market institutions as described in the Financial Services Authority publication entitled “The Regulation of the Wholesale Cash and OTC Derivatives Markets”: “The Grey Paper” (as amended or revised from time to time), the over-the-counter market in Japan regulated by the Securities Dealers Association of Japan, AIM - the Alternative Investment Market in the UK, regulated by the London Stock Exchange, the French Market for Titres de Creance Negotiable (over-the-counter market in negotiable debt instruments), NASDAQ Europe5, the over-the-counter market in Canadian Government Bonds regulated by the Investment Dealers Association of Canada, SESDAQ, the Russian Trading System (RTS) I and II (a Fund may only invest in equity securities which are traded on level 1 or level 2 of the relevant market; a Fund may not invest more than (a) 30% of its net assets in equity securities which are traded on RTS I; (b) 20% of its net assets in equity securities which are traded on RTS II; and (c) 30% in aggregate of its net assets in equity securities which are traded on either RTS I or RTS II) and the following securities markets and derivatives markets indicated below.

Up to 10% in value of any Fund may be invested in transferable securities which are not approved securities.

	Legg Mason Asia Pacific Fund	Legg Mason Continental European Equity Fund	Legg Mason Global Equity Income Fund	Legg Mason Global Multi Strategy Bond Fund	Legg Mason Japan Equity Fund	Legg Mason Global Blue Chip Bond Fund	Legg Mason US Equity Fund	Legg Mason US Equity Income Fund	Legg Mason US Smaller Companies Fund	Legg Mason Income Optimiser Fund	Legg Mason Global Credit Absolute Return Fund
Eligible Securities Markets:											
Australia											
Australian Securities Exchange (ASX Ltd)	✓		✓	✓			✓	✓		✓	✓
Austria											
Vienna Stock Exchange/Wiener Borse AG		✓	✓	✓		✓	✓	✓		✓	✓
Brazil											
Sao Paolo Stock Exchange			✓	✓						✓	✓
Canada											
Montreal Stock Exchange			✓	✓			✓	✓		✓	✓
The Toronto Stock Exchange							✓	✓	✓	✓	
Toronto Futures Exchange			✓	✓			✓	✓		✓	✓
TSX Ventures Exchange (CDNX)							✓	✓		✓	
Chile											
Santiago Stock Exchange			✓	✓						✓	✓
China											
Shenzhen Stock Exchange	✓		✓	✓							✓
Shanghai Securities Exchange	✓		✓	✓							✓
Colombia											
Colombia Stock Exchange / Bolsa de Valores de Colombia			✓	✓						✓	✓
Croatia											
Zagreb Stock Exchange			✓	✓							✓
Egypt											
Cairo Stock Exchange			✓	✓							✓
Alexandria Stock Exchange			✓	✓							✓
Hong Kong											
Stock Exchange of Hong Kong	✓		✓	✓			✓	✓			✓
Hong Kong Futures Exchange			✓	✓							✓
GEM (Growth Enterprise Market)	✓										
India											
National Stock Exchange of India	✓		✓	✓							✓
Bombay Stock Exchange	✓		✓	✓							✓
Indonesia											
Indonesia Stock Exchange, ISX			✓	✓						✓	✓
Jakarta Stock Exchange	✓										
Israel											
Tel Aviv Stock Exchange			✓	✓		✓					✓
Japan											
Osaka Securities Exchange			✓	✓	✓		✓	✓		✓	✓
Tokyo Stock Exchange			✓	✓	✓		✓	✓		✓	✓

	Legg Mason Asia Pacific Fund	Legg Mason Continental European Equity Fund	Legg Mason Global Equity Income Fund	Legg Mason Global Multi Strategy Bond Fund	Legg Mason Japan Equity Fund	Legg Mason Global Blue Chip Bond Fund	Legg Mason US Equity Fund	Legg Mason US Equity Income Fund	Legg Mason US Smaller Companies Fund	Legg Mason Income Optimiser Fund	Legg Mason Global Credit Absolute Return Fund
Nagoya Stock Exchange					✓		✓	✓		✓	
Sapporo Stock Exchange					✓		✓	✓		✓	
Tokyo International Financial Futures Exchange					✓		✓	✓		✓	
OTC Market JASDAQ					✓		✓	✓		✓	
Hercules					✓					✓	
Korea											
Korea Exchange Incorporated	✓						✓	✓		✓	
KOSDAQ	✓									✓	
Malaysia											
Bursa Malaysia Berhad	✓		✓	✓						✓	✓
Mexico											
Mexican Stock Exchange			✓	✓			✓	✓		✓	✓
Mexican Derivatives Exchange – MexDer			✓	✓						✓	✓
New Zealand											
New Zealand Stock Exchange	✓						✓	✓		✓	
New Zealand Futures Exchange			✓	✓						✓	✓
New Zealand Futures and Options Exchange (NZFOE)							✓	✓		✓	
Pakistan											
Karachi Stock Exchange	✓										
Philippines											
Philippine Stock Exchange	✓		✓	✓						✓	✓
Peru											
Lima Stock Exchange			✓	✓							✓
Singapore											
Singapore Exchange	✓		✓	✓			✓	✓		✓	✓
South Africa											
South Africa Futures Exchange (SAFEX)			✓	✓			✓	✓		✓	✓
JSE Securities Exchange South Africa			✓	✓			✓	✓		✓	✓
South Korea											
Korea Exchange Incorporated			✓	✓						✓	✓
Sri Lanka											
Colombo Stock Exchange	✓		✓	✓							✓
Switzerland											
SWX Swiss Exchange		✓	✓	✓		✓	✓	✓		✓	✓
Eurex			✓	✓		✓	✓	✓		✓	✓
Taiwan											
Taiwan Stock Exchange			✓	✓							✓
Gre Tai Securities Market	✓										
Thailand											
Stock Exchange of Thailand	✓		✓	✓			✓	✓			✓

	Legg Mason Asia Pacific Fund	Legg Mason Continental European Equity Fund	Legg Mason Global Equity Income Fund	Legg Mason Global Multi Strategy Bond Fund	Legg Mason Japan Equity Fund	Legg Mason Global Blue Chip Bond Fund	Legg Mason US Equity Fund	Legg Mason US Equity Income Fund	Legg Mason US Smaller Companies Fund	Legg Mason Income Optimiser Fund	Legg Mason Global Credit Absolute Return Fund
Turkey											
Istanbul Stock Exchange		✓	✓	✓		✓				✓	✓
United States											
American Stock Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
Boston Stock Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
Chicago SE	✓		✓	✓		✓	✓	✓	✓	✓	✓
Pacific SE	✓					✓	✓	✓	✓	✓	
NYSE Arca			✓	✓						✓	✓
Chicago Board of Trade (GLOBEX)	✓		✓	✓		✓	✓	✓	✓	✓	✓
Chicago Board Options Exchange (CBOE)	✓		✓	✓		✓	✓	✓	✓	✓	✓
Chicago Mercantile Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
Midwest Stock Exchange			✓	✓						✓	✓
New York Stock Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
New York Futures Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
New York Mercantile Exchange (NYMEX)	✓		✓	✓		✓	✓	✓	✓	✓	✓
Kansas City Board of Trade	✓		✓	✓		✓	✓	✓	✓	✓	✓
Philadelphia Board of Trade			✓	✓						✓	✓
Philadelphia Stock Exchange	✓		✓	✓		✓	✓	✓	✓	✓	✓
The NASDAQ Stock Market (National Association of Securities Dealers Inc)	✓		✓	✓		✓	✓	✓	✓	✓	✓
The over the counter market in the U.S.*	✓		✓	✓		✓				✓	✓
The market in U.S. government securities**	✓		✓	✓		✓				✓	✓

*Conducted by primary and secondary dealers regulated by the Securities and Exchange Commission and by the National Association of Securities Dealers and by banking institutions regulated by the U.S. controller of the currency, the Federal Reserve Systems or Federal Deposit Insurance Corporation.

**Conducted by primary dealers selected by the Federal Reserve Bank of New York.

Appendix 3

Fund Performance

Reported Shares are the Class A Accumulation in UK pound sterling, except for the Legg Mason Global Blue Chip Bond Fund, Legg Mason Global Multi Strategy Bond Fund and Legg Mason Global Equity Income Fund, where the Class A Income in UK pound sterling is being reported.

Performance reported to 31 August 2011.

Fund Name	5 Years % Change	Since Inception % change	Fund Inception Date
Legg Mason Global Blue Chip Bond Fund	11.65	77.93	12.02.98
Legg Mason Global Multi Strategy Bond Fund	-	16.47	23.05.08
Legg Mason Global Credit Absolute Return Fund **	-	-	-
Legg Mason Income Optimiser Fund **	-	-	-
Legg Mason UK Equity Fund	-7.50	119.50	31.10.95
Legg Mason Continental European Equity Fund	-14.08	56.94	29.08.97
Legg Mason US Equity Fund *	-31.29	-10.87	02.01.03
Legg Mason US Equity Income Fund **	-	-	-
Legg Mason US Smaller Companies Fund	44.62	85.40	29.03.04
Legg Mason Japan Equity Fund	-33.53	55.08	22.10.96
Legg Mason Asia Pacific Fund	56.58	116.40	16.02.04
Legg Mason Global Equity Income Fund	-	7.35	23.05.08

* Re-launch.

** The Legg Mason US Equity Income Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund are not yet available for subscription and consequently there is no past performance information which can be stated in this Prospectus.

Source for performance figures – Copyright © 2011, Morningstar, Inc. All Rights Reserved. NAV to NAV with net income reinvested without initial charges but reflecting annual management fees. For more information, visit www.morningstar.co.uk

Past performance is no guide to future returns and may not be repeated.

Appendix 4

Investment Powers and Safeguards

Each Fund is categorised as a “UCITS scheme”. The Funds are to be invested within the investment powers permitted for funds which are eligible under that Directive hence the name of their scheme type under the FSA Rules, “UCITS scheme”. The full investment and borrowing powers for a UCITS scheme are explained below.

However, additional restrictions currently apply in order that certain of the Funds are suitable investments for certain fund of funds schemes and may be offered as ISA qualifying investment. Each Fund is currently subject to more restrictive provisions than are applicable to UCITS schemes and so some flexibility which is available to UCITS schemes may not currently be exercised. Notably, the following additional restrictions apply:

- for a Fund other than the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Equity Income Fund and the Legg Mason Global Credit Absolute Return Fund, investment in units of collective investment schemes are limited to 5% of the value of a Fund (within the 10% unapproved securities limit), and no more than 10% of the units of a collective investment scheme may be acquired by a Fund;*
- for the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Equity Income Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund, no more than 10% in value of the Scheme Property of a Fund may consist of units in collective investment schemes and no more than 25% of the units of a collective investment scheme may be acquired by a Fund;*
- money market instruments and deposits may only be held for a Fund if within the “cash and near cash” provisions;*
- the cash and near cash provisions explained below apply except in relation to the possibility of holding cash or near cash in order to enable the pursuit of the Fund’s investment objectives; and*
- derivative transactions may only be entered into for the limited purposes of efficient management of the portfolio as explained below (see ‘Proposed use of derivatives by the Funds’), except in respect of the Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund which may use derivatives for investment purposes.*

Whilst the ACD would wish to have the full UCITS powers available as they are explained in full below, and so have the maximum flexibility in relation to the investment strategy for each Fund at all times, it is not expected that the above restrictions will have any effect on the current investment strategy of the ACD in seeking to achieve the investment objectives of the Fund pursuant to its investment policies. The ACD is therefore content to apply the above restrictions so as to ensure that the Funds remain eligible investments for fund of funds schemes.

The following paragraphs summarise the restrictions applicable to a UCITS scheme which will apply, subject to the above additional restrictions, for each Fund.

General

The ACD must ensure that, taking account of the investment objective and policy of the relevant Fund, the Scheme Property of the Fund aims to provide a prudent spread of risk.

An aim of the restrictions on investment and borrowing powers for a UCITS scheme set out in the COLL Sourcebook is to help protect Shareholders by laying down minimum requirements for the investments which may be held by a Fund. There are requirements for the types of investments which may be held by a Fund. There are also a number of investment rules requiring diversification of investment of a Fund, and so providing a prudent spread of risk. The ACD will, on a Shareholder's request, provide supplementary information to that set out in this Prospectus relating to the quantitative limits applying in the risk management of a Fund, the methods used in this connection and any recent development of the risk and yields of the main categories of investment of a Fund.

Types of investment

The property of a Fund must except where otherwise provided in the COLL Sourcebook, as outlined below consist solely of any or all of:

- transferable securities;
- approved money market instruments;
- derivatives and forward transactions;
- deposits; and
- units in collective investment schemes,

in each case as permitted under the terms of Section 5 of the COLL Sourcebook, as outlined below.

The Scheme Property of the Company may also include moveable and immoveable property that is essential for the direct pursuit of the Company's business, but it is not intended that the Company shall hold any such property.

The Funds may, in principle, invest up to 100% in any of the types of assets mentioned above. The following paragraphs therefore summarise the restrictions for UCITS schemes generally under the COLL Sourcebook. However, each of the Funds is managed subject to its investment objective and investment policy (as specified in Appendix 1), and this indicates the likely type of investments which will be held. In accordance with each Fund's investment objective and investment policy, each Fund will invest predominantly in transferable securities. The Manager does not envisage that the Funds will invest in collective investment schemes, money market instruments or warrants to any material extent, unless a Fund's investment policy (as specified in Appendix 1) states that it is intended that it should. Similarly, unless a Fund's investment policy (as specified in Appendix 1) states that it is intended that it should, the ACD does not intend to invest in derivative instruments or forward transactions, except for the limited purposes of efficient management of the portfolio as explained below (see 'Proposed use of derivatives by the Funds').

1. Transferable securities

1.1 *What is a transferable security?*

- (a) A transferable security is an investment which is any of the following: a share, a debenture, a government and public security, a warrant or a certificate representing certain securities. An investment is not a transferable security if title to it cannot be transferred, or can be transferred only with the consent of a third party (although, in the case of an investment which is issued by a body corporate and which is a share or debenture, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored). An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.
- (b) A Fund may invest in a transferable security only to the extent that that transferable security fulfils the following criteria:
 - (i) the potential loss which the Fund may incur with respect to holding the transferable securities is limited to the amount it paid for it;
 - (ii) its liquidity does not compromise the ability of the ACD to comply with its obligation to redeem Shares at the request of any qualifying Shareholder;
 - (iii) a reliable valuation is available for it as follows: (i) for a transferable security admitted to or dealt in on an eligible market, there are accurate reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers; and (ii) for a transferable security not admitted to or dealt in on an eligible market, there is a valuation on a periodic basis which is derived from information from the issuers of the transferable security or from competent investment research);
 - (iv) appropriate information is available for it as follows: (i) for a transferable security admitted to or dealt in on an eligible market, there is regular accurate and comprehensive information available to the market on that security or, where relevant on the portfolio of the transferable security; and (ii) for a transferable security not admitted to or dealt in on an eligible market, there is regular and accurate information available to the ACD on the transferable security or where relevant on the portfolio of the transferable security;
 - (v) it is negotiable; and
 - (vi) its risks are adequately captured by the risk management process of the ACD.
- (c) Unless there is information available to the ACD that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market is presumed not to compromise the ability of the ACD to comply with its obligation to redeem Shares at the request of any qualifying Shareholder and to be negotiable.

- (d) Where the ACD considers that the liquidity or negotiability of a transferable security might compromise the ability of the ACD to comply with its obligation to redeem Shares, it should assess the liquidity risk in accordance with the CESR Guidelines with respect to Article 2(1) of the Eligible Assets Directive.
- (e) Note that a unit in a closed ended fund is taken to be a transferable security provided it fulfils the above criteria and either:
- (i) where the closed ended fund is constituted as an investment company or a unit trust:
- it is subject to corporate governance mechanisms applied to companies; and
 - where another person carries out asset management activity on its behalf, that person is subject to national regulation for the purpose of investor protection; or
- (ii) where the closed ended fund is constituted under the law of contract:
- it is subject to corporate governance mechanisms equivalent to those applied to companies; and
 - it is managed by a person who is subject to national regulation for the purposes of investor protection.
- (f) Shares in UK investment trusts are classified as transferable securities.

1.2 Transferable securities linked to other assets

- (a) A Fund may invest in any other investment which may be taken to be a transferable security for the purposes of investment by a Fund provided that the investment fulfils the criteria set out above and is backed by or linked to the performance of other assets which may differ from those in which a UCITS scheme can invest.
- (b) Where such an investment contains an embedded derivative component, the requirements with respect to derivatives and forwards will apply to that component.

1.3 What are “approved securities”?

Each Fund will generally invest in “approved securities”, which are transferable securities which are admitted to, or dealt in on, an eligible market as defined for the purposes of the COLL Sourcebook.

1.4 Limited investment in unapproved securities

Not more than 10% in value of a Fund's property is to consist of transferable securities which are not such approved securities or recently issued transferable securities, as explained below (together with any approved money market instruments which are not within any of the paragraphs (a) to (c) below under the heading 'Eligible money market instruments').

1.5 Eligible Markets

An Eligible Market for the purpose of the COLL Sourcebook is:

- (a) a regulated market, which is a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III of the Markets in Financial Instruments Directive (MiFID);
- (b) a market in an EEA state which is regulated, operates regularly and is open to the public; or
- (c) a market which the ACD, after consultation with, and notification to, the Depositary, determines is appropriate for the purpose of investment of, or dealing in, the property of the Company and as set out in Appendix 2 to this Prospectus. In accordance with the relevant criteria in the COLL Sourcebook, such a market must be regulated; operate regularly; recognised as a market or exchange or as a self regulating organisation by an overseas regulator; open to the public; be adequately liquid; and have adequate arrangements for unimpeded transmission of income and capital to, or to the order of, investors.

The Eligible Securities Markets for each Fund as at the date of this Prospectus are set out in Appendix 2.

1.6 Recently issued transferable securities

Recently issued transferable securities may be held by a Fund provided that:

- (a) the terms of issue include an undertaking that application will be made to be admitted to an eligible market; and
- (b) such admission is secured within a year of issue.

2. Money market instruments

2.1 *What is an “approved money market instrument”?*

An approved money market instrument is a money market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.

- (a) normally dealt in on the money market

A money market instrument shall be regarded as normally dealt in on the money market if it:

- (i) has a maturity at issuance of up to and including 397 days;
- (ii) has a residual maturity of up to and including 397 days;
- (iii) undergoes regular yield adjustments in line with money market conditions at least every 397 days; or
- (iv) has a risk profile including credit and interest rate risks corresponding to that of the instrument which has a maturity as set out in (i) or (ii) or is subject to yield adjustment as set out in (iii).

- (b) regarded as liquid

A money market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame taking into account the obligation of the ACD to redeem Shares at the request of any qualifying Shareholder; and

- (c) has a value which can be accurately determined at any time.

A money market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuation systems, which will fulfil the following criteria, are available:

- (i) they enable the ACD to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm’s length transaction; and
- (ii) they are based either on market data or on valuation models including systems based on amortised costs.

The ACD is obliged to assess the liquidity of a money market instrument in accordance with the CESR Guidelines with respect to Article 4(1) of the UCITS Eligible Assets Directive.

2.2 *Eligible money market instruments*

Generally investments may be made in the following types of money market instrument:

(a) Money market instruments admitted to/dealt in on an Eligible Market

A money market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time, and so be an “approved money market instrument”, unless there is information available to the ACD that would lead to a different determination.

(b) Money market instruments with certain regulated issuers

In addition to instruments admitted to or dealt in on an eligible market, a UCITS scheme may invest in an approved money market instrument provided:

(i) the issue or the issuer is regulated for the purpose of protecting investors and savings

This is regarded as being the case if:

- the instrument is an approved money market instrument (as explained above);
- appropriate information is available for the instrument (including information which allows an appropriate assessment of credit risks related to investment in it);

Generally, the following information must be available:

- information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;
- updates of that information on a regular basis and whenever a significant event occurs; and
- available and reliable statistics on the issue or the issuance programme, or where appropriate, other data enabling an appropriate assessment of the credit risks related to investment in those instruments;

In the case of an approved money market instrument issued or guaranteed by a central authority of an EEA state or, if the EEA state is a federal state, one of the members making up the federation, the European Union or the European Investment Bank or a non EEA

state or, in the case of a federal state, one of the members making up the federation, or which is issued by a regional or local authority of an EEA state or a public international body to which one or more EEA states belong and is guaranteed by a central authority of an EEA state or, if the EEA state is a federal state, one of the members making up the federation, information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument; and

- the instrument is freely transferable; and

(ii) the instrument is:

- issued or guaranteed by any one of the following: a central authority of an EEA state or, if the EEA state, is a federal state, one of the members making up the federation; a regional or local authority of an EEA state; the European Central Bank or a central bank of an EEA state; the European Union or the European Investment Bank; a non EEA state or, in the case of federal state, one of the members making up the federation; a public international body to which one or more EEA member states belong; or
- issued by a body, any securities of which are dealt in on an eligible market; or
- issued or guaranteed by an establishment which is: (i) subject to prudential supervision in accordance with the criteria defined by European Community law or (ii) subject to and complies with prudential rules considered by the FSA to be at least as stringent as those laid down by European Community law. (This latter condition is considered satisfied if it is subject to and complies with prudential rules and fulfils one or more of the following criteria: it is located in the EEA; it is located in an OECD country belonging to the Group of Ten; it has at least investment grade rating or, on the basis of an in depth analysis of the issuer, it can be demonstrated that prudential rules applicable to that issuer are at least as stringent as those laid down by European Community law.)

(c) Other money market instruments with a regulated issuer

In addition to instruments admitted to or dealt in on an eligible market, a UCITS scheme may also, with the express consent of the FSA (which takes the form of a waiver under Section 148 of the Financial Services and Markets Act 2000), invest in an approved money market instrument provided:

- (i) the issuer or issuer is itself regulated for the purpose of protecting investors and savings on the basis explained above;

- (ii) investment in that instrument is subject to investor protection equivalent to that provided by instruments which satisfy the requirements explained above; and
- (iii) the issuer is a company whose capital and reserves amount to at least €10 million and which presents and publishes its annual accounts in accordance with Directive 78/660/EEC, is an entity which, within a group of companies which includes one or several listed companies, is dedicated to the financing of the group or is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

A securitisation vehicle is a structure, whether in corporate, trust or contractual form, set out for the purpose of securitisation operations.

A banking liquidity line is a banking facility secured by a financial institution which is an establishment subject to prudential supervision in accordance with criteria defined by European Community law or in an establishment which is subject to, and complies with, prudential rules considered by the FSA to be at least as stringent as those laid down by European Community law.

2.3 *Limited investment in unapproved money market instruments*

Not more than 10% in value of the Scheme Property of a Fund may consist of approved money market instruments which are not within any of the paragraphs (a) to (c) above under the heading 'Eligible money market instruments' (together with any transferable securities which are not approved securities or recently issued transferable securities as explained above).

3. Deposits

A Fund may invest in deposits only if they are with an approved bank and are repayable on demand or have the right to be withdrawn and mature in no more than twelve months.

4. Derivatives

Under the COLL Sourcebook, derivatives (a contract for difference, a future or an option) are permitted for UCITS schemes for investment purposes. Derivative transactions may, under the COLL Sourcebook, be used for the purposes of efficient portfolio management (including hedging) or meeting the investment objectives or both.

Although the Company is governed by the COLL Sourcebook, use of the full extent of the powers allowed under the COLL Sourcebook is only available for a Fund if approved by a resolution of Shareholders in that Fund. Consequently, unless a Fund's investment policy (as specified in Appendix 1) states that it is intended that it may use the wider powers to invest in derivatives for the purposes of meeting that Fund's investment objectives (as described in the following paragraphs), investment in derivatives and forward transactions for the Funds is constrained to use for the limited purposes of efficient management of the Fund as explained below (see 'Proposed use of derivatives by the Funds').

Subject to certain detailed restrictions, a transaction in derivatives or a forward transaction may be effected for a Fund if it is a permitted transaction and the transaction is covered, on the basis explained below. A transaction in a derivative must not cause a Fund to diverge from its investment objectives. For any derivative transaction, there are requirements if that transaction will or could lead to the delivery of property, and there must be an appropriate risk management process in place.

4.1 *Permitted derivative transactions for UCITS schemes*

Subject to certain detailed restrictions, a transaction in derivatives or a forward transaction may be effected for a Fund if it is:

- a permitted transaction; and
- the transaction is covered;

in each case on the basis explained below.

4.2 *Permitted transactions*

A transaction in a derivative must be either:

- (a) in an approved derivative, i.e. a transaction effected on or under the rules of an eligible derivatives market

Eligible derivatives markets are those which the ACD, after consultation with the Depositary, has decided are appropriate for the purpose of investment of or dealing in the property of the Fund in question with regard to the relevant criteria set out in the COLL Sourcebook and the formal guidance on eligible markets issued by the FSA as amended from time to time. The eligible derivatives markets for the Fund are set out in Appendix 2; or

- (b) subject to restrictions, an OTC derivative transaction.

Any transaction in an OTC derivative must be:

- (i) with an approved counterparty

A counterparty to a transaction in derivatives is approved only if the counterparty is:

- an eligible institution or an approved bank; or
- a person whose permission permits it to enter into transactions as principal off – exchange;

(ii) on approved terms

The terms of the transaction in derivatives are approved only if, the ACD:

- carries out, at least daily a reliable and verifiable valuation in respect of that transaction corresponding to its fair value and which does not rely only on market quotations by the counterparty; and
- can enter into one or more further transaction to sell, liquidate or close out that transaction at any time at its fair value (“fair value” for the purpose of this paragraph, is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.);

(iii) capable of reliable valuation

A transaction in derivatives is capable of reliable valuation only if the ACD, having taken reasonable care, determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:

- on the basis of an up to date market value which the ACD and the Depositary have agreed is reliable; or
- if the value referred to above is not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and

(iv) subject to verifiable valuation

A transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into), verification of the valuation is carried out by:

- an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the ACD is able to check it; or
- a department within the ACD which is independent from the department in charge of managing the Scheme Property and which is adequately equipped for such a purpose.

- (c) A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more transferable securities, approved money market instruments, units in a collective investment scheme or derivatives, provided that a sale is not to be considered as uncovered if the conditions below (see ‘Requirement to cover sales’) are satisfied.

- (d) Any forward transaction must be made with an Eligible Institution or an Approved Bank.
- (e) A derivative includes an instrument which fulfils the following criteria:
 - (i) it allows the transfer of the credit risk of the underlying independently from the other risks associated with that underlying;
 - (ii) it does not result in the delivery or the transfer of assets other than those referred to regarding permitted types of scheme property for a UCITS scheme including cash;
 - (iii) in the case of an OTC derivative, it complies with the requirements for OTC transactions in derivatives explained above;
 - (iv) its risks are adequately captured by the risk management process of the ACD, and by its internal control mechanisms in the case of risks of asymmetry of information between the ACD and the counterparty to the derivative, resulting from potential access of the counterparty to non public information on persons whose assets are used as the underlying by that derivative.

4.3 Valuation of OTC derivatives

- (a) For the purposes of paragraph 4.2(b)(ii) the ACD must:
 - (i) establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of the exposures of a Fund to OTC derivatives; and
 - (ii) ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.
- (b) Where the arrangements and procedures referred to above involve the performance of certain activities by third parties, the ACD must comply with the requirements in SYSC 8.1.13 R (Additional requirements for a management company) and COLL 6.6A.4 R (4) to (6) (Due diligence requirements of AFMs of UCITS schemes).
- (c) The arrangements and procedures referred to in this rule must be:
 - (i) adequate and proportionate to the nature and complexity of the OTC derivative concerned; and
 - (ii) adequately documented.

4.4 Permitted underlying assets for derivative transactions

- (a) The underlying of any transaction in a derivative must consist of any one or more of the following to which the scheme is dedicated:

- (i) transferable securities;
- (ii) approved money market instruments admitted to, or dealt in on, an eligible market or with a regulated issuer;
- (iii) deposits;
- (iv) permitted derivatives;
- (v) units in a collective investment scheme;
- (vi) financial indices which satisfy certain criteria;
- (vii) interest rates;
- (viii) foreign exchange rates; and
- (ix) currencies.

A UCITS scheme may not undertake a transaction in derivatives on commodities.

(b) The financial indices mentioned above are those which satisfy the following criteria:

(i) the index is sufficiently diversified

A financial index is sufficiently diversified if it is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index; and, whether it is composed of assets in which a UCITS scheme is permitted to invest or it is composed of assets in which a UCITS scheme cannot invest, its composition is at least diversified in accordance with the requirements of the COLL Sourcebook;

(ii) the index represents an adequate benchmark

A financial index represents an adequate benchmark for the market to which it refers if it measures the performance of a representative group of underlyings in a relevant and appropriate way; it is revised or rebalanced periodically to ensure that it continues to reflect the market to which it refers, following criteria which are publicly available; and the underlying is sufficiently liquid, allowing users to replicate it if necessary; and

(iii) the index is published in an appropriate manner

An index is published in an appropriate manner if its publication process relies on sound procedures to collect prices and calculate and subsequently publish the index value, including pricing procedures for components where a market price is not available; and material information on matters such as index calculation,

rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.

- (c) Where the composition of underlyings of a transaction in a derivative does not satisfy the requirements for a financial index, the underlyings for that transaction shall, where they satisfy the requirements with respect to any other underlyings which are permitted underlyings for a transaction in derivatives mentioned above, be regarded as a combination of those underlyings.
- (d) An index based on derivatives on commodities or an index on property may be regarded as a financial index provided it satisfies the above criteria. When assessing whether a hedge fund index satisfies these criteria, consideration shall be given to the Committee of European Securities Regulators' Guidelines on the classification of hedge fund indices as financial indices.

If the composition of an index is not sufficiently diversified in order to avoid undue concentration, its underlying assets should be combined with the other assets of the UCITS scheme when assessing compliance with the requirements on cover for transactions in derivatives and forwards transactions and also the spread requirements.

In order to avoid undue concentration, where derivatives of an index composed of assets in which a UCITS scheme cannot invest are used to track or gain high exposure to the index, the index is required to be at least diversified in a way which is equivalent to the diversification achieved by the requirements with respect to spread and concentration applicable to schemes replicating an index.

If derivatives on that index are used for risk diversification purposes, provided the exposure of the UCITS scheme to that index complies with the 5%, 10% and 40% ratios required for spread restriction purposes, there is no need to look at the underlying components of that index to ensure that it is sufficiently diversified.

4.5 *Transactions for the purchase of property*

A derivative or forward transaction which will or could lead to the delivery of property for the account of a Fund, may be entered into only if:

- (a) that property can be held for the account of the Fund; and
- (b) the ACD, having taken reasonable care, determines that delivery of the property under that transaction will not occur or will not lead to a breach of the applicable restrictions.

4.6 *Requirement to cover sales*

- (a) No agreement by or on behalf of a Fund to dispose of property or rights may be made unless:

- (i) the obligation to make the disposal and any other similar obligation could immediately be honoured by the Fund by delivery of property or the assignment (or, in Scotland, assignation) of rights; and
 - (ii) such property and rights are attributable to the Fund at the time of the agreement.
- (b) However this requirement does not apply to a deposit.

4.7 *Derivatives exposure*

- (a) A Fund may invest in derivatives and forward transactions as long as the exposure to which the Fund is committed by that transaction itself is suitably covered from within its Scheme Property. Exposure will include any initial outlay in respect of that transaction. The requirements for cover in this paragraph are intended to ensure that a Fund is not exposed to the risk of loss of the property, including money, to an extent greater than the net value of the Scheme Property. Therefore a Fund is required to hold Scheme Property sufficient in value or amount to match the exposure arising from the derivative obligation to which the Fund is committed. Cover used in respect of one derivative or forward transaction cannot be used as cover in respect of another derivative or forward transaction.
- (b) The ACD must ensure that the global exposure relating to derivatives and forward transactions held in a Fund does not exceed the net value of the Scheme Property of that Fund. The ACD must calculate a Fund's global exposure on at least a daily basis. For these purposes, exposure is calculated taking into account the current value of the underlying assets, counterparty risk (the risk of loss for a Fund resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow), future market movements and the time available to liquidate the positions.
- (c) Each Fund (other than the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund) investing in derivatives and forward transactions (or using derivatives or forward transactions for the limited purposes of efficient management of the portfolio) employs the "commitment approach" to measuring global exposure. Under the "commitment approach" global exposure is measured as the incremental exposure and leverage generated through the use of all derivatives and forward transactions (including transferable securities and money market instruments embedding derivatives) whether these are used as part of the Fund's investment policy, for the purposes of risk reduction or for efficient portfolio management. The ACD may take account of netting and hedging arrangements when calculating global exposure of a Fund, where those arrangements do not disregard obvious and material risks and result in clear reduction in risk exposure. Temporary borrowing arrangements entered into on behalf of a Fund in accordance with paragraph 15 below need not form part of the global exposure calculation.
- (d) Each of the Legg Mason Global Credit Absolute Return Fund and the Legg Mason Income Optimiser Fund employs the Value-at-Risk ("VaR") method in measuring global exposure and adheres to a limit on the absolute VaR of the Fund of 20 per cent.

of the Fund's net asset value. In applying the VaR method, the following quantitative standards are used:

- (i) the confidence level is 99%;
- (ii) the holding period is 20 days; and
- (iii) the historical observation period is longer than one year.

This Fund must employ back testing and stress testing and comply with other regulatory requirements regarding the use of VaR. The VaR method is detailed in the Fund's risk management process for derivatives, which are described below under "Risk Management".

- (e) Where a Fund employs techniques and instruments including repo contracts or stock lending transactions (see paragraph 12 below) in order to generate additional leverage or exposure to market risk, the ACD takes such transactions into consideration when calculating global exposure.
- (f) Property which is the subject of a stock lending transaction should not be considered as available for cover unless the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- (g) Cash obtained from borrowing, and borrowing which the ACD reasonably regards an eligible institution or approved bank to be committed to provide, is not available for cover unless the Company borrows an amount of currency from an eligible institution or approved bank and keeps an amount in another currency at least equal to the borrowing for the time being in the initial amount of currency on deposit with the lender (or his agent and nominee) in which case the requirements for cover applies if the borrowed currency and not the deposited currency were part of the Scheme Property.

4.8 *Exposure to underlying assets*

Where a Fund invests in derivatives, the exposure to the underlying assets must not exceed the spread limits explained in "Spread requirements" below, save that where a Fund invests in an index based derivative, provided the relevant index falls within the definition of "relevant index" (being an index which satisfies the following criteria: (i) the composition is sufficiently diversified; (ii) the index represents an adequate benchmark for the market to which it refers; and (iii) the index is published in an appropriate manner), the underlying constituents of the index do not have to be taken into account for the purposes of the spread requirements. Such relaxation in respect of index based derivatives is subject to the requirement for the ACD to maintain a prudent spread of risk.

4.9 *Transferable securities and money market instruments embedding derivatives*

- (a) Where a transferable security or approved money market instrument embeds a derivative, this must be taken into account for the purposes of complying with the restrictions on derivatives.
- (b) A transferable security or an approved money market instrument will embed a derivative if it contains a component which fulfils the following criteria:
 - (i) by virtue of that component some or all of the cash flows that otherwise would be required by the transferable security or approved money market instrument which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, and therefore vary in a way similar to a standard alone derivative;
 - (ii) its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and
 - (iii) it has a significant impact on the risk profile and pricing of the transferable security or approved money market instrument.
- (c) A transferable security or an approved money market instrument does not embed a derivative where it contains a component which is contractually transferable independently of the transferable security or the approved money market instrument. That component shall be deemed to be a separate instrument.
- (d) Collateralised debt obligations (CDOs) or asset backed securities using derivatives, with or without an active management will generally not be considered as embedding a derivative except if:
 - (i) they are leveraged (i.e. the CDOs or asset backed securities are not limited recourse vehicles and the investors' loss can be higher than their initial investment); or
 - (ii) they are not sufficiently diversified.
- (e) Where a transferable security or approved money market instrument embedding a derivative is structured as an alternative to an OTC derivative, the requirements with respect to transactions in OTC derivatives will apply. This will be the case for tailor-made hybrid instruments such as a single tranche CDO structured to meet the specific needs of a scheme, which should be considered as embedding a derivative. Such a product offers an alternative to the use of an OTC derivative for the same purpose of achieving a diversified exposure with a pre set credit risk level to a portfolio of entities.

The following list of transferable securities and approved money market instruments (which is illustrative and non exhaustive) could be assumed to embed a derivative:

- (i) credit linked notes;

- (ii) transferable securities or approved money market instruments whose performance is linked to the performance of a bond index;
- (iii) transferable securities or approved money market instruments whose performance is linked to the performance of a basket of shares, with or without active management;
- (iv) transferable securities or approved money market instruments with a fully guaranteed nominal value whose performance is linked to the performance of a basket of shares with or without active management;
- (v) convertible bonds; and
- (vii) exchangeable bonds.

No UCITS scheme can use transferable securities or approved money market instruments which embed a derivative to circumvent the restrictions regarding use of derivatives.

Transferable securities and approved money market instruments which embed a derivative are subject to the rules applicable to derivatives as outlined in this section. It is the ACD's responsibility to check that these requirements are satisfied. The nature, frequency and scope of checks performed will depend on the characteristics of the embedded derivatives and on their impact on the Fund, taking into account its stated investment objective and risk profile.

4.10 Risk management: derivatives

As mentioned below, the ACD must use a risk management process enabling it to monitor and measure as frequently as appropriate the risk of a Fund's positions and their contribution to the overall risk profile of the Fund.

The ACD should undertake the risk assessment with the highest care when the counterparty to the derivative is an associate of the ACD or the credit issuer.

4.11 Proposed use of derivatives by the Funds

As mentioned above, unless a Fund's investment policy (as specified in Appendix 1) states that the contrary is intended, the ACD does not intend to enter into derivatives and forward transactions except for the limited purposes of efficient management of the portfolio. **Accordingly, unless otherwise stated in this Prospectus in relation to a particular Fund, it is not anticipated that the use of derivatives will have an adverse effect on the risk profile of the Funds.**

The Legg Mason Global Multi Strategy Bond Fund, the Legg Mason Global Blue Chip Bond Fund, the Legg Mason Income Optimiser Fund and the Legg Mason Global Credit Absolute Return Fund may use derivatives for investment purposes. Using derivatives may increase the volatility of the Funds and alter the risk profile of the Funds.

For the limited purposes of efficient management of the portfolio, the ACD may utilise the property of a Fund to enter into derivatives and forward transactions which are reasonably regarded by the ACD as economically appropriate and which are effected in order to achieve a reduction in certain risks or costs or the generation of additional capital or income for the Fund with an acceptably low level of risk. There is no limit on the amount or value of the property of the Fund which may be used in respect of such transactions, but the ACD will only enter into a transaction if it reasonably believes the transaction to be economically appropriate. The following types of risk are relevant: market risk; interest rate risk; credit risk and foreign exchange (FX) risk.

5. Collective investment schemes

Investment by a Fund in units in collective investment schemes is subject to the following restrictions:

5.1 *Relevant types of collective investment scheme*

- (a) A Fund may invest in any of the following types of collective investment scheme:
 - (i) a scheme which complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive;
 - (ii) a scheme which is recognised under the provisions of section 270 of the Financial Services and Markets Act 2000 (schemes authorised in designated countries or territories);
 - (iii) a scheme which is a UK authorised scheme which is classified as a non-UCITS retail scheme, if the requirements set out in Article 50(1)(e) of the UCITS Directive are met;
 - (iv) a scheme which is authorised in another EEA State, if the requirements set out in Article 50(1)(e) of the UCITS Directive are met; or
 - (v) a scheme authorised by the competent authority of an OECD member country (other than another EEA State) which has:
 - (i) signed the IOSCO Multilateral Memorandum of Understanding; and
 - (ii) approved the scheme's management company, rules and depositary/custody arrangements;(provided the requirements of article 50(1)(e) of the UCITS Directive are met).
- (b) In relation to the schemes mentioned at paragraphs (iii) and (v) above, the requirements of Article 50(1)(e) of the UCITS Directive are that:
 - (i) the scheme is authorised under laws which provide that it is subject to supervision considered by UCITS competent authorities to be equivalent to that laid down in community law and that co-operation between authorities is sufficiently assured;

- (ii) the level of protection for Unitholders in the scheme is equivalent to that provided for Unitholders in UCITS schemes and, in particular, the rules on asset segregation, borrowing, lending and uncovered sales of transferable securities and money market instruments are equivalent to the requirements of the UCITS Directive;
 - (iii) the business of the scheme is reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities income and operations over the reporting period; and
 - (iv) no more than 10% of the scheme's assets, whose acquisition is contemplated, can, according to its fund rules or instrument of incorporation, be invested in aggregate units of other UCITS or other collective investment undertakings.
- (c) Any scheme in which a Fund invests must have terms which prohibit more than 10% in value of the scheme property consisting of units in collective investment schemes.

It is therefore anticipated that UK non-UCITS retail schemes are likely to be possible investments, given that the COLL Sourcebook provisions for such schemes are very similar to those for UCITS retail schemes other than in investment respects.

- (d) Whilst investment is possible in schemes in any of the categories mentioned in paragraphs (a)(i) to (a)(iv) above, not more than 30% in value of a Fund may be invested in schemes which are within paragraphs (a)(ii), (a)(iii) and (a)(iv) above.

5.2 *Investment in associated collective investment schemes*

No Fund may invest in another Fund of the Company. However, a Fund may invest in associated collective investment schemes (other collective investment schemes which are managed or operated by the ACD or an associate of the ACD). In this connection, where an investment or disposal of units in such an associated collective investment scheme is made, and there is a charge in respect of such investment or disposal, the ACD must pay certain amounts within four business days following the date of the agreement to invest or dispose namely:

- (a) when an investment is made, any entry charge; and
- (b) when a disposal is made, any charge made for the account of the operator of the second scheme or an associate of any of them in respect of the disposal.

Note: For this purpose, dilution and SDRT provisions are not regarded as part of any charge. The intention is to prevent any double charging of the entry charge on investment, or exit charge on disinvestment.

6. **Spread requirements**

There are limitations on the proportion of the value of a Fund which may be held in certain forms of investment. These rules relating to spread of investments do not apply until the expiry of six months

after the initial offer of shares of a Fund, although the ACD must still aim to maintain a prudent spread of risk during this initial period.

6.1 General spread requirements

The general spread requirements are as follows:

- (a) not more than 20% in value of a Fund's property is to consist of deposits with a single body;
- (b) not more than 5% in value of a Fund's property is to consist of transferable securities or approved money market instruments issued by a single body, except that:
 - (i) the 5% limit is increased to 10% in respect of up to 40% in value of a Fund's property (and in applying these limits certificates representing certain securities are treated as equivalent to the underlying security); and
 - (ii) covered bonds need not be taken into account for the purposes of applying the limit of 40%. The limit of 5% is raised to 25% in value of the Scheme Property in respect of covered bonds, provided that, when a Fund invests more than 5% in covered bonds issued by a single body, the total value of covered bonds held must not exceed 80% in value of the Scheme Property;
- (c) the exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of a Fund's property although this limit is raised to 10% where the counterparty is an approved bank;
- (d) not more than 20% in value of a Fund is to consist of transferable securities and approved money market instruments issued by the same group, meaning companies included for the same group for the purposes of consolidated accounts as defined in accordance with EU Directive 83/349/EEC or in the same group in accordance with international accounting standards;
- (e) not more than 20% in value of a Fund is to consist of units in any one collective investment scheme (for the purposes of this spread requirement, if investment is made in sub-funds of an umbrella scheme, each sub-fund is treated as if it were a separate scheme);

Note: In order that each Fund is available as an investment of a fund of funds scheme which is a UCITS scheme, the Company's instrument of incorporation provides that no more than 10% in value of the Scheme Property of a Fund may consist of units in collective investment schemes. This is subject to the further restrictions applicable to certain Funds explained at the beginning of this Appendix 4 which currently restrict investment by certain Funds in units of collective investment schemes to 5% of the value of the Fund. The summary of the UCITS scheme restrictions relating to investment in units in collective investment schemes (in Section E above) and those concerning the spread requirements should be read accordingly.

- (f) In applying the limits in (a), (b), and (c), and subject to the restrictions on covered bonds mentioned in (b) above, not more than 20% in value of a Fund's property is to consist of any combination of any two or more of the following:
 - (i) transferable securities or approved money market instruments issued by; or
 - (ii) deposits made with; or
 - (iii) exposure from OTC derivatives transactions made with;

a single body. Notwithstanding that these limits do not apply to government and public securities, and subject as mentioned below, in applying this 20% limit with respect to a single body, government and public securities issued by that body shall be taken into account.

6.2 Government and public securities

The above restrictions do not apply to government and public securities. No more than 35% of a Fund's property will be invested in government and public securities issued by any one body. Apart from this restriction, there is no limit on the amount which may be invested in such securities or in any one issue.

6.3 Counterparty Risk and Issuer Concentration

- (a) The risk of loss for a Fund resulting from the fact that a counterparty to an OTC derivative or forward transaction may default on its obligations prior to the final settlement of the transaction's cash flow ("counterparty risk") is subject to the limits set out above in paragraphs 6.1(c) and (f).
- (b) When calculating the exposure of a Fund to a counterparty in accordance with the limit set out in paragraph 6.1(c) above, the ACD will use the positive mark-to-market value of the OTC derivative contract with that counterparty. The ACD may net the OTC derivative positions of a Fund with the same counterparty, provided:
 - (i) The ACD is able legally to enforce netting agreements with the counterparty on behalf of the Fund; and
 - (ii) The netting agreements do not apply to any other exposures the Fund may have with that same counterparty.
- (c) A Fund's exposure to an OTC derivative counterparty may be reduced through the receipt of collateral. Collateral received must be sufficiently liquid so that it can be sold quickly at a price that is close to its pre-sale valuation.
- (d) Where collateral is passed to an OTC derivative counterparty on behalf of a Fund, such collateral must be taken into account in calculating the exposure to the OTC derivative counterparty. Such collateral may be taken into account on a net basis only if the ACD is able legally to enforce netting arrangements with this counterparty on behalf of the Fund.

- (e) In relation to exposures arising from OTC derivative transactions (as referred to in paragraph 6.1(f) above), counterparty risk relating to the OTC derivative transaction is included in the calculation.
- (f) The ACD must calculate the issuer concentration limits referred to in paragraph 6.1(f) on the basis of the underlying exposure created through the use of OTC derivatives pursuant to the commitment approach.

6.3 Use of index based derivatives

Where a Fund invests in an index based derivative, provided the relevant index complies with the criteria set out in paragraph 4.3(b) above, the underlying constituents of the index do not need to be taken into account for the purposes of the spread requirements provided the ACD takes into account the requirement to provide a prudent spread of risk.

7. Concentration restrictions

The Company must not acquire for its Funds:

- (a) transferable securities (other than debt securities) issued by a body corporate which do not carry rights to vote at a general meeting of that company and represent more than 10% of the securities issued by that body corporate; or
- (b) more than 10% of the debt securities (which are debentures, government and public services and warrants which confer rights of investment in these) issued by a single body; or
- (c) more than 25% of the units in a collective investment scheme; or
- (d) more than 10% of the approved money market instruments issued by any single body;

but need not comply with the limits in (b), (c) and (d) if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated.

8. Schemes replicating an index

- (a) Notwithstanding the general spread requirements under the COLL Sourcebook, a Fund may invest up to 20% in value of the Fund's property in shares and debentures which are issued by the same body where the investment policy is to replicate the composition of a relevant index which satisfies certain criteria. The 20% limit can be raised to 35% in value of the Scheme Property, but only in respect of one body and where justified by exceptional market conditions.
- (b) Replication of the composition of a relevant index shall be understood to be a reference to replication of the composition of the underlying assets of that index, including the use of techniques and instruments permitted for the purpose of efficient portfolio management.
- (c) The indices referred to in (a) above are those which satisfy the following criteria:
 - (i) The composition is sufficiently diversified

This will be the case if the components of the index adhere to the spread and concentration requirements in this section;

(ii) The index represents an adequate benchmark for the market to which it refers

This will be the case if the index provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers; and

(iii) The index is published in an appropriate manner

This will be the case if:

- it is accessible to the public; and
- the index provider is independent from the index-replicating Fund; (although they may be part of the same group, provided effective arrangements for the management of conflicts are in place).

None of the Funds is a scheme which replicates an index and so this relaxation of the general spread requirements does not apply.

9. Prohibition on acquiring significant influence in a company

The Company may only acquire for its Funds transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body corporate if:

- (a) immediately before the acquisition, the aggregate of such securities held by the Company does not give the Company power significantly to influence the conduct of business of that corporate body; or
- (b) the acquisition will give the Company such power.

The power significantly to influence is assumed if such securities allow the Company to exercise or control the exercise of 20% or more of the votes cast in that body.

10. Warrants

A warrant is an instrument giving entitlements to investment (a warrant or other instrument entitling the holder to subscribe for a share, debenture or government and public security) and any other transferable security (not being a nil paid or partly paid security) which is listed on an eligible securities market; and is akin to an investment which is an instrument giving entitlements to investments, in that it involves a down payment by the then holder and a right later to surrender the instrument and pay more money in return for a further transferable security.

Where a Fund invests in a warrant, the exposure created by the exercise of the right conferred by that warrant must not exceed the spread requirements set out above.

A warrant falls within any power of investment if it is reasonably foreseeable that the right conferred by the proposed warrant could be exercised by the ACD without contravening the investment restrictions in the COLL Sourcebook (assuming that there is no change in a Fund's property between the acquisition of the proposed warrant and its exercise and that the rights conferred by the proposed warrants and all other warrants forming part of a Fund's property at the time of acquisition of the proposed warrant will be exercised, whether or not it is intended that they will be).

No more than 5% of each Fund will consist of warrants.

11. Nil and party paid securities

A transferable security or approved money market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Fund, at the time when payment is required, without contravening the COLL Sourcebook as they are applicable to the Fund.

12. Stock lending

Stock lending covers techniques relating to transferable securities and approved money market instruments which are used for the purpose of efficient portfolio management.

It permits the generation of additional income for the benefit of the Fund and hence its investors, by entering into stock lending transactions for the account of the Fund.

Stock lending involves a lender transferring securities to a borrower otherwise than by way of sale and the borrower transferring those securities, or securities of the same type and amount, back to the lender at a later date. In accordance with market practice, a separate transaction by way of transfer of assets is involved for the purposes of providing collateral to the "lender" to cover him against the risk that the future transfer back of the securities may not be satisfactorily completed.

A stock lending arrangement or repo contract may be entered into in respect of a Fund when it is appropriate with a view to generating additional income with an acceptable degree of risk. The Depositary, at the ACD's request, may enter into a repo contract or a stock lending arrangement in respect of a Fund of a kind described in section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C) on certain terms specified in the COLL Sourcebook. There is no limit on the value of the property of a Fund which may be the subject of stock lending transactions.

Where a stock lending arrangement is entered into, the Scheme Property remains unchanged in terms of value. The securities transferred cease to be part of the Scheme Property but there is obtained in return an obligation on the part of the counterparty to transfer back equivalent securities. The Depositary will also receive collateral to set against the risk of default and transfer and that collateral is equally irrelevant to the value of the Scheme Property. The COLL Sourcebook makes provision for treatment of collateral in that context. Where the scheme generates leverage through the re-investment of collateral, this should be taken into account in the calculation of the scheme's global exposure.

13. Power to underwrite or accept placings

The exposure of a Fund to agreements and understandings which are underwriting or sub underwriting agreements, or contemplate the securities will or may be issued or subscribed for or acquired for the account of the Fund, must, on any day be covered (as explained above in relation to derivative

transactions) and such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in the COLL Sourcebook.

14. Guarantees and indemnities

Neither the Company nor the Depositary (on account of the Company) may provide any guarantee or indemnity in respect of the obligation of any person. None of the Scheme Property of the Company may be used to discharge any obligation arising under any guarantee or indemnity with respect to the obligation of any person. This is subject to exceptions in the case of any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the COLL Sourcebook (summarised above) or certain indemnities for certain insurances against liability for certain persons, indemnities to the Depositary against certain liabilities for safe keeping of Scheme Property.

15. Borrowing

The Company (on the instruction of the ACD) may borrow money for the use of a Fund (on terms that the borrowing is to be repayable out of the property of a Fund) from an Eligible Institution or an Approved Bank (e.g. a bank or building society). Borrowings may be arranged with the Depositary. The ACD must ensure that any such borrowings comply with the FSA Rules.

Borrowing must be on a temporary basis and not be persistent, and in any event must not exceed 3 months without the prior consent of the Depositary. The Depositary's consent may be given only on conditions which appear appropriate to the Depositary to ensure that the borrowing remains on a temporary basis.

The ACD must ensure that borrowing does not exceed 10% of the value of the property of the relevant Fund on any Business Day.

These borrowing restrictions do not apply to “back to back” borrowing for currency hedging purposes, i.e. borrowing permitted to reduce or eliminate risk arising by reason of fluctuations in exchange rates.

16. Restrictions on lending

None of the money in the Scheme Property of a Fund may be lent and, for the purposes of this prohibition, money is lent by a Fund if it is paid to a person (the payee) on the basis that it should be repaid whether or not by the payee. (This restriction does not prevent the acquiring of a debenture, nor the placing of money on deposit or in a current account. Nor does it prevent the Company from providing an officer of the Company with funds to meet expenditure to be incurred by him for the purpose of the Company (or for the purposes of enabling him properly to perform his duties as an officer of the Company) or from doing anything to enable an officer to avoid incurring such expenditure.)

The scheme property of the Company other than money must not be lent by way of deposit or otherwise, although stock lending transactions are not regarded as lending for this purpose. The Scheme Property must not be mortgaged. Where transactions in derivatives or forward transactions are used for the account of a Fund in accordance with any of the rules in the COLL Sourcebook, nothing will prevent the Company or the Depositary at the request of the Company from lending, depositing, pledging or charging the Scheme Property for margin requirements or transferring Scheme Property under the terms of an agreement in relation to margin requirements, provided that the ACD reasonably

considers that both the agreement and the margin arrangements made under it (including in relation to the level of margin) provide appropriate protection to Shareholders.

17. Cash and near cash

At times it is appropriate for a Fund not to be fully invested. However, the ACD may make deposits (explained above). Also a Fund may hold cash or “near cash” (meaning essentially certain types of deposits) where this may reasonably be regarded as necessary in order to enable:

- (a) the pursuit of the Fund's investment objectives; or
- (b) redemption of Shares; or
- (c) efficient management of the Fund in accordance with its investment objectives; or
- (d) other purposes which may reasonably be regarded as ancillary to the investment objectives of the Fund.

During the initial offer period for a Fund, that Fund may consist of cash and near cash without limitation.

18. Immovable property

The Funds shall not invest in immovable property.

19. Risk management

The ACD must use a risk management process (including a risk management policy) in accordance with COLL 6.12, enabling it to monitor and measure at any time the risk of a Fund’s positions and their contribution to the overall risk profile of the Fund. The following details of the risk management process must be regularly notified to the FSA and at least on an annual basis:

- (a) A true and fair view of the types of derivatives and forward transactions to be used within the Fund together with their underlying risks and any relevant quantitative limits.
- (b) The methods for estimating risks in derivatives and forward transactions.

The ACD must notify the FSA in advance of any material alteration to the details above.

The process must take into account the investment objectives and policy of the Fund. The ACD has taken reasonable care to establish and maintain systems and controls which are appropriate to its business in this connection. The risk management process enables the analysis required to be undertaken at least daily or at each valuation point (whichever is the more frequent). The Depositary is obliged to take reasonable care to review the appropriateness of the risk management process in line with its duties.

20. Breaches of the investment and borrowing powers and limits

Generally the ACD must, at its own expense, take action to rectify a breach of the investment and borrowing powers and limits as soon as it becomes aware of it. However:

- (a) if the reason for the breach is beyond the control of the ACD and the Depositary, the ACD must take the steps necessary to rectify a breach as soon as it is reasonably practicable, having regard to the interests of shareholders, and, in any event, within six months or, if it is a transaction in derivatives or a forward transaction, five Business Days; and
- (b) if the exercise of rights conferred by investment held by a Fund would involve a breach, those rights may still be exercised if the prior written consent of the Depositary is obtained and the ACD then takes the steps necessary to rectify the breach as soon as is reasonably practicable having regard to the interests of Shareholders and, in any event, within six months or, if it is a transaction in derivatives or a forward transaction, five Business Days.

Immediately upon the Depositary becoming aware of any breach of any of the investment and borrowing powers and limits, it must ensure that the ACD takes such appropriate action.

LEGG MASON
GLOBAL ASSET MANAGEMENT

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