

For Immediate Release

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**US SMALL CAPS DEMONSTRATE RESILIENCE WITH MANY OUTPERFORMING DURING Q2
SAYS LEGG MASON AFFILIATE ROYCE**

London – 19 August 2009 – Legg Mason affiliate, Royce & Associates, believes that US micro and small caps have reinforced they are well placed to lead the way out of the recession, having broken even during the second quarter of 2009 while operating well below capacity.

During Q2 the Russell 2000 index of US small caps saw its best quarterly advances since the second quarter of 2003. Royce expects the next phase of the market cycle, although probably less dynamic, to be characterised by higher highs and higher lows.

Whitney George, portfolio manager of the Royce Smaller Companies Fund explains, “The fact that so many small-cap companies have been able to grow during recent months while operating at less than half of capacity demonstrates very promising signs of both resilience and comeback potential. We believe that small caps should no longer be viewed as a peripheral asset class, but rather an asset class that can enhance an investment portfolio’s returns.”

George continues, “Although historically small-cap growth will trail small-cap value in down markets, we are not surprised to see small-cap growth hold an advantage throughout the recent bear market or thus far in the rally.

“The current bear market has made our stock selection process certainly more interesting, especially in the micro-cap sector. With the number of micro-cap and small-cap companies growing higher every day our challenge is to not over-commit but choose the stocks we believe in as opposed to guessing which way the markets might go.”

Looking ahead in terms of sectors, Whitney George has long been particularly keen on stocks associated with hard assets. This holds true in the current environment as global demand for energy continues to grow as the world develops and the population increases.

There are self-correcting forces. When energy prices slump, activity to find new energy sources slows down. That allows for inventory to dwindle, and it doesn't take more than a couple of years before shortages develop. George notes that natural gas, an industry in which he is overweight, is an interesting example — it is an attractively priced energy source that we have in abundance right now, so more people are likely to choose it because it's economical. In a few years, demand could have

grown very quickly, driving prices higher. The manager thinks the same should hold true for fertiliser, an area it has recently added in the Fund. The less that's applied to the fields this year, the more will be needed in the future, because the minerals and nutrients are consumed in the process of growing crops and there is a growing amount of people globally to feed. For these hard assets, the manager argues, bad situations today tend to lay great groundwork for tomorrow.

Despite a weak US economy and negative sentiment, Royce believes that current valuations are extremely attractive and create the potential for strong returns for small-cap securities over the next three to five years.

Whitney George is the portfolio manager of the UK domiciled Legg Mason US Smaller Companies Fund and Dublin domiciled Royce Smaller Companies Fund. Both funds seek to unearth undervalued US small cap stocks. Year-to-date the Royce Smaller Companies Fund is up 21.93% compared with its benchmark, the Russell 2000 index which is up 12.51% (as at 31.07.09).

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Notes to editors

About Royce & Associates

Royce & Associates is a wholly owned affiliate of Legg Mason, Inc. entirely focused on the US Small Cap market. Founded in 1972 by Charles M. Royce, one of the pioneers of small-cap investing,

About Legg Mason

Legg Mason is a global asset management firm, with \$657 billion in assets under management as of June 30, 2009. The Company provides active asset management in many major investment centres throughout the world. Legg Mason is headquartered in Baltimore, Maryland, and its common stock is listed on the New York Stock Exchange (symbol: LM).

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