Legg Mason Funds ICVC

Legg Mason UK Equity Fund

Market Review

Equity markets globally experienced a second consecutive quarter of negative returns in Q2 2008, with investors' concerns becoming increasingly focused on inflation as oil and food prices continued to rise. At the same time, as expected, economic growth rates slowed during the period. The UK market, as represented by the FTSE All Share Index, fell by 1.45%, which was a smaller decline than in the US and Continental European equity markets.

Within the UK market, large-cap stocks outperformed the small- and mid-cap segments. The large-cap based FTSE 100 Index was still down in absolute terms, however, falling 0.4% over the quarter. The FTSE Small Cap Index fell by 5.2%, while the mid-cap market segment was the poorest performer, with the FTSE Mid 250 Index recording a decline of 7.5%. UK bonds also posted negative returns, with gilts down 3.6% and UK corporate bonds dipping by 0.1%.

Despite the slowdown in GDP growth, a weakening housing market, and falling consumer confidence, rising inflation made it difficult for the Bank of England (BofE) to consider cutting interest rates. UK inflation climbed to 3.3% per annum in May, its highest rate in over a decade and over a percentage point above the BofE's target rate of 2%. In consequence, although the BofE reduced rates by 25 basis points to 5.0% in April, expectations of further interest rate cuts waned, and some observers began to predict that the next movement in UK rates might even be upwards as the BofE's priority may switch from supporting growth to controlling inflation.

In the equity market, oil & gas producers, as well as mining stocks, were the best performing areas during the second quarter, driven by on-going strength in oil and commodity prices. All major stocks in these groups performed well. Financials were the weakest area, however, with bank stocks suffering from concerns over several rights issues in the sector, as well as doubts that their credit-crunch related problems are over. HBOS and Barclays were hit particularly hard, with share price falls over the quarter of 49% and 33%, respectively.

Fund Review

The Legg Mason UK Equity Fund fell by 0.26%[1] in sterling terms during the second quarter, relatively outperforming its benchmark, the FTSE All Share Index, which recorded a loss in sterling terms of 1.45%.

Stock selection accounted for this outperformance, as the Fund's sector asset allocation had a broadly neutral effect on its returns. The manager's stock selection strategy added most value in the consumer discretionary and materials sectors (with the important oil sector being included in the latter group). The Fund benefited from its holdings in the oil majors BP and Royal Dutch Shell, which performed strongly as oil prices rose to record levels. In addition, it was overweight in energy provider BG Group (formerly British Gas), which also outperformed on the back of robust energy prices.

In the consumer discretionary area, meanwhile, the Fund's holding in Game Group, the computer and video games retailer, performed strongly as the stock was helped by upbeat trading news. Elsewhere, the Fund benefited from holding market research group Taylor Nelson Sofres, which was the subject of takeover activity. In the consumer staples and health care sectors, however, stock selection detracted from the Fund's relative returns. In the former area, the Fund's positions in Northern Foods and Dairy Crest were among the negative influences, as was health care stock Southern Cross, which specialises in providing care homes for the elderly.

Within the Fund's sector asset allocation, an overweight to the materials group and an underweight to the poorly performing banks sector were the largest positive contributors to relative returns, while being overweight in industrials and underweight in utilities detracted. At the end of the quarter, the manager maintained an underweight exposure to the banks sector, as it did to financials ex-banks and utilities. Sectors in which the Fund was overweight included energy, telecom services, and consumer discretionary.

Outlook

Looking ahead, the Fund's investment manager notes that slower growth and rising inflation are likely to remain the key themes for the UK economy for the next few quarters. In addition to its interest rate cut in April, the BofE also managed to reduce rates by 0.25% in each of the two previous quarters. But its ability to cut rates further to counter slower growth is limited by the fact that this could stoke inflation. The BofE will also be very mindful that any increase in rates to counter the inflationary threat could push the UK economy into recession. Against this backdrop, the manager believes that value can still be found in the UK equity market after the recent share price declines, and as a disciplined, long-term investor it will continue to seek attractive stocks whatever the environment.

This Fund is managed by Batterymarch Financial Management

[1] **Performance Figure Source** - Morningstar. NAV to NAV, net income reinvested, and net of Annual Management Charge for A class shares. For more information, visit www.morningstar.co.uk

Legg Mason UK Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Performance Inception*
FTSE All Share Index	-13.03%	18.37%	19.67%	18.75%	16.89%	71.00%	144.78%
UK Equity Fund	**-16.20%**	**8.69%**	**20.05%**	**16.43%**	**11.05%**	**41.36%**	**113.83%**

*Inception Date: 31.10.95

Commentary and sources for figures supplied by: Batterymarch Financial Management, Inc.

Performance figure source - Morningstar, NAV to NAV, net income reinvested, and net of annual management charges for A class shares. For more information, visit www.morningstar.co.uk

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July 2008 Ref: 3659

Legg Mason Funds ICVC

Legg Mason UK Income Fund

Market Review

Equity markets globally experienced a second consecutive quarter of negative returns in Q2 2008, with investors' concerns becoming increasingly focused on inflation as oil and food prices continued to rise. At the same time, as expected, economic growth rates slowed during the period. The UK market, as represented by the FTSE All Share Index, fell by 1.45%, which was a smaller decline than in the US and Continental European equity markets.

Within the UK market, large-cap stocks outperformed the small- and mid-cap segments. The large-cap based FTSE 100 Index was still down in absolute terms, however, falling 0.4% over the quarter. The FTSE Small Cap Index fell by 5.2%, while the mid-cap market segment was the poorest performer, with the FTSE Mid 250 Index recording a decline of 7.5%. UK bonds also posted negative returns, with gilts down 3.6% and UK corporate bonds dipping by 0.1%.

Despite the slowdown in GDP growth, a weakening housing market, and falling consumer confidence, rising inflation made it difficult for the Bank of England (BofE) to consider cutting interest rates. UK inflation climbed to 3.3% per annum in May, its highest rate in over a decade and over a percentage point above the BofE's target rate of 2%. In consequence, although the BofE reduced rates by 25 basis points to 5.0% in April, expectations of further interest rate cuts waned, and some observers began to predict that the next movement in UK rates might even be upwards as the BofE's priority may switch from supporting growth to controlling inflation.

In the equity market, oil & gas producers, as well as mining stocks, were the best performing areas during the second quarter, driven by ongoing strength in oil and commodity prices. All major stocks in these groups performed well. Financials were the weakest area, however, with bank stocks suffering from concerns over several rights issues in the sector, as well as doubts that their credit-crunch related problems are over. HBOS and Barclays were hit particularly hard, with share price falls over the quarter of 49% and 33%, respectively.

Fund Review

The Legg Mason UK Income Fund rose by 0.58%[1] in sterling terms during the second quarter, comfortably outperforming its benchmark, the FTSE All Share Index, which recorded a loss in sterling terms of 1.45%.

Stock selection accounted for this outperformance, as the Fund's sector asset allocation had a broadly neutral effect on its returns. The manager's stock selection strategy added most value in the consumer discretionary and materials sectors (with the important oil sector being included in the latter group). The Fund benefited from its holdings in the oil majors BP and Royal Dutch Shell, which performed strongly as oil prices rose to record levels, while elsewhere it was overweight in energy provider BG Group (formerly British Gas), which outperformed on the back of robust energy prices.

In the consumer discretionary area, meanwhile, the Fund's holding in Game Group, the computer and video games retailer, performed strongly as the stock was helped by upbeat trading news. Elsewhere, the Fund benefited from holding market research group Taylor Nelson Sofres, which was the subject of takeover activity. In the consumer staples group, however, stock selection detracted from the Fund's relative returns, with Northern Foods and Dairy Crest being among the negative influences.

Within the Fund's sector asset allocation, an overweight to the materials group and an underweight to banks were the largest positive contributors to the Fund's relative returns, while being overweight in industrials and underweight in utilities detracted. At the end of the quarter, the manager maintained an underweight exposure to the banks sector, as it did to financials ex-banks and utilities. Sectors in which the Fund was overweight included energy, telecom services, and consumer discretionary.

Outlook

Looking ahead, the Fund's investment manager notes that slower growth and rising inflation are likely to remain the key themes for the UK economy for the next few quarters. In addition to its interest rate cut in April, the BofE also managed to reduce rates by 0.25% in each of the two previous quarters. But its ability to cut rates further to counter slower growth is limited by the fact that this could stoke inflation. The BofE will also be very mindful that any increase in rates to counter the inflationary threat could push the UK economy into recession. Against this backdrop, the manager believes that value can still be found in the UK equity market after the recent share price declines, and as a disciplined, long-term investor it will continue to seek stocks that offer attractive dividend and income prospects whatever the environment.

This Fund is managed by Batterymarch Financial Management

[1] **Performance Figure Source** - Morningstar. NAV to NAV, net income reinvested, and net of Annual Management Charge for A class shares. For more information, visit www.morningstar.co.uk

Legg Mason UK Income Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Performance Inception*
FTSE All Share Index	-13.03%	18.37%	19.67%	18.75%	16.89%	71.00%	144.78%
UK Income Fund	**-14.51%**	**8.82%**	**21.33%**	**16.48%**	**13.38%**	**49.06%**	**163.50%**

*Inception Date: 31.10.95

Commentary and sources for figures supplied by: Batterymarch Financial Management, Inc

Performance figure source - Morningstar, NAV to NAV, net income reinvested, and net of annual management charges for A class shares. For more information, visit www.morningstar.co.uk

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July 2008 Ref: 3660

Legg Mason Funds ICVC

Legg Mason Continental European Equity Fund

Market Review

European equity markets recorded further declines during the second quarter, as did markets globally, with particularly sharp falls being experienced in the final month of the period. Increased concerns about inflation drove markets lower as oil and food prices continued to rise. At the same time, as expected, economic growth rates slowed. Despite the slower growth outlook, however, the European Central Bank (ECB) faced the same dilemma as other central banks in developed markets in setting monetary policy: interest rates could not be lowered for fear of stoking inflation.

Indeed, markets began to widely expect that the next move in eurozone interest rates would be upwards. In late June, the region's annual inflation rate was reported to have risen to 4%, the highest since the ECB's creation seven years ago and twice as high as its target rate. (An imminent 0.25% interest rate rise to 4.25% became viewed as a certainty, and indeed the ECB implemented this increase just after the quarter-end at its 3 July meeting). In the UK, meanwhile, the Bank of England (BofE) was also faced with slower growth and a rising inflation rate, and although it managed to lower interest rates in April by 0.25% to 5.0%, it then left them unchanged for the remainder of the quarter.

In Europe's equity markets, oil & gas was the best performing sector, helped by further strength in oil prices, which hit new highs as the quarter progressed. The financials sector was the worst performing group, however, as bank stocks were again hurt by credit crunch related concerns and write-downs related to the troubled US mortgage market. Swiss banking group UBS was particularly hard hit, as it suffered further losses from its US lending.

Fund Review

The Legg Mason Continental European Equity Fund fell by 3.16%[1] in euro terms during the second quarter, relatively outperforming its benchmark, the FTSE World Europe ex UK Index, which fell by 5.20%.

Stock selection accounted for this outperformance, with the investment manager's selections in the materials, industrials, consumer staples, and financials ex banks sectors making the largest positive contributions. The Fund's holding in steelmaker ArcelorMittal, which ranked as one of its top ten holdings in terms of individual stock weightings at the end of the quarter, was a strong outperformer, for example. The group, which is the world's largest steel manufacturer, reported record first-quarter results in May and in an accompanying statement indicated that it is continuing to see strong demand for steel.

Elsewhere in the portfolio's top ten holdings, French oil company Total outperformed, as did Italian energy group ENI. The stocks benefited from the steady increase in oil prices to record levels during the quarter. The Fund also gained from its position in Milan-listed Prysmian Group, a global provider of cables to the energy and telecom industries. Stock selection in the energy sector as a whole detracted from returns, however, with Energias de Portugal being one holding that underperformed during the period. Selections in the consumer discretionary sector also detracted from returns. Fiat, the Italian auto manufacturer and diversified conglomerate, was among holdings that hampered the Fund's performance.

Turning to the Fund's asset allocation, an underweight exposure to the poorly performing banks sector and an overweight to utilities were positions that contributed positively to its relative performance. An overweight to consumer staples and underweight to materials held back returns, however. At the end of the quarter, the Fund remained overweight in utilities and consumer staples, in addition to health care and financials ex banks. In addition to banks and materials, its other underweight positions included energy, consumer discretionary and telecom services.

Outlook

The Fund's investment manager believes that the environment of slower economic growth and above-target inflation will continue in the coming months. The manager notes that the latter consideration is likely to remain the focal point for the ECB in setting monetary policy. Despite this difficult backdrop, the manager believes that value can still be found selectively in Europe's equity markets, where it believes valuations are not looking stretched after the recent market falls. As a disciplined, long-term investor, it continues to seek attractive stocks whatever the environment.

This Fund is managed by Batterymarch Financial Management

[1] **Performance figure source:** Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

Legg Mason Funds ICVC

Legg Mason Continental European Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Performance Inception*
FTSE World Europe ex UK Index	-8.86%	25.85%	24.03%	19.05%	18.76%	101.13%	127.45%
Continental European Equity Fund	**-13.97%**	**19.64%**	**23.12%**	**22.98%**	**18.41%**	**84.55%**	**87.38%**

*Inception Date: 29.08.97

Commentary and sources for figures supplied by: Batterymarch Financial Management, Inc.

Performance figure source – Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

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July 2008 Ref: 3663

Legg Mason Funds ICVC

Legg Mason Asia Pacific Fund

Market Review

The MSCI All Country Asia ex-Japan Index declined 7.9% in the second quarter in US dollar terms, underperforming the MSCI Emerging Markets and MSCI World indices, which declined 0.8% and 1.7%, respectively.

Asia continued to underperform other regions in the second quarter. Regional heavyweight China, which was down 3.1%, was the best performing emerging market in the region. India, continuing its noteworthy underperformance, was down 19.7% in the quarter and 41.4% year to date. The Philippines and Pakistan were also sharply lower, declining 24.8% and 26.5% respectively. The developed markets in the region were among the strongest; Singapore was down 1.1%, while Hong Kong declined 4.2%.

China and especially India have underperformed significantly in the correction since October 2007 as global risk appetite diminished and a portion of earlier substantial inflows left those markets. Rising domestic inflation in both markets has led to further tightening measures. Both governments also raised retail prices on gasoline and other oil products, responding to inflationary pressures. Both markets, previously clear valuation outliers, are now trading at multiples more in line with other Asian markets; the forward PE multiples at quarter-end in China and India were 12.6x and 11.8x respectively, compared to 11.7x for the AC Asia ex-Japan index, after having reached the mid-twenties during last year's rally.

In Taiwan, after outperformance during the first quarter following favourable election results, the market declined 10.7%. The manager continues to believe that the new KMT government will facilitate easier access for Taiwanese companies to the burgeoning Chinese market, which could restore growth and profitability.

South Korea outperformed the index, although it declined 7.6% during the quarter. Southeast Asian markets also underperformed, with only Indonesia's 4.5% decline beating the regional average. In Thailand, relative political stability waned as major public demonstrations took place demanding the removal of the five-month-old government, which now faces a no-confidence debate over alleged wrongdoing and policy mistakes.

Fund Review

The Legg Mason Asia Pacific Fund fell 8.74%[1] in sterling terms for the quarter compared to a sterling decline of 8.0% for its benchmark, the MSCI AC Asia Ex-Japan Index. The manager's stock selection in the Asian emerging markets added value over the period: South Korea and Malaysia benefited the portfolio most, while selection in Taiwan detracted from performance. Elsewhere, stock selection within Hong Kong was a significant detractor.

In terms of sectors, the Fund's exposure to companies in the materials and capital goods groups continued to detract from performance during the quarter, after adding significant value last year. Among the underperformers were Steel Authority of India, Crompton Greaves and Sintex Industries. In South Korea, limited exposure to underperforming companies in the capital goods industry group and overweight exposure to insurance companies, such as LIG Insurance, were the primary positive stock selection drivers.

The manager's investment process emphasises stock selection, with a secondary focus on country allocation. The impact of country allocation was mixed this quarter. While the portfolios benefited from an overweight in South Korea, the underweights in Singapore and Hong Kong detracted from performance.

Outlook

Looking ahead, the manager thinks that tightening monetary policy and the liberalisation of energy prices will have a moderating impact on growth in the region. Higher commodity prices have a more pronounced impact on the emerging markets than they do on developed markets, as food and energy costs take up a far more significant portion of an average emerging market consumer's income. Governments are responding with monetary tightening in order to rein in inflation and dampen inflationary expectations. Greater availability of credit for consumers can mitigate the headwinds of higher inflation and interest rates.

This Fund is managed by Batterymarch Financial Management

[1] **Source for performance figures** - Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.morningstar.co.uk

Legg Mason Asia Pacific Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Inception*
MSCI AC Asia Ex Japan Index	-4.72%	34.31%	21.28%	29.30%	-	-	85.37%
Legg Mason Asia Pacific Fund	**-5.89%**	**41.93%**	**28.32%**	**28.44%**	**-**	**-**	**87.00%**

Launch 16.02.04

Performance figure source - Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

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July 2008 Ref: 3666

Legg Mason Funds ICVC

Legg Mason Japan Equity Fund

Market Review

Japanese stocks made up lost ground in the second quarter of 2008 despite persistent fears of an economic slowdown, both domestically and internationally, coupled with skyrocketing crude oil prices and ongoing concerns about the state of the US financial sector following the subprime losses. Against this backdrop, the Nikkei 225 index rose 7.6% in Japanese yen terms over the period, while the TSE first section index (TOPIX) rose 8.8% and the broader TSE second section index, which largely consists of small-and mid-cap companies, was up 4.7% by the end of the period. The TSE Mothers index, however, which follows high growth and emerging stocks, fell by 12.9% over the quarter as small-cap investors sought safety in large-cap companies that were benefiting from the weakening of the yen.

With regards to market activity by investor type, unlike the first quarter of 2008, foreigners were the largest net buyers over the period followed by business corporations. The largest net sellers of the quarter were individuals followed by trust banks and investment trusts. In the Mothers market of small-cap stocks, individuals were the largest buyers for the fourth consecutive month in June.

There is a growing belief amongst investors that Japan is in fairly good shape compared to many other developed markets having already survived deflation, a housing bubble and moribund consumer spending. Indeed, there are now signs that inflation is beginning to rise, which will have a positive effect on Japan's economy since bond investors will be more likely to move into equities and consumers will be encouraged to spend more. Elsewhere, in a move designed to attract more foreign money, Japanese regulators are seeking to make taxation rules more transparent for overseas investors.

In terms of sectors, the best performing ones in Japanese yen terms were Agriculture & Forestry, Mining, Oil, Paper & Pulp, Steel, Insurance, Shipping, Wholesaling, Construction and Electric machinery, which all posted healthy positive returns. The worst performing sectors were Airlines, Foodstuffs, Textiles and Rubber Products.

Fund Review

Against this backdrop, the Legg Mason Japan Equity Fund fell by 12.8%[1] in the second quarter of 2008 while its benchmark, the TOPIX index, rose by 2.1% (both in sterling terms).

In terms of stock attribution, amongst the largest positive contributors to performance over the period were Wacom (+19.9%), a manufacturer of computer input devices and pen tablets, both for industrial and consumer use, Don Quijote (7.4%), the general discount store and Kakaku.com (+3.6%), operator of one of Japan's largest price comparison websites. Conversely, the principal negative contributors in terms of Fund performance were MCJ Co. (-47.3%), the computer manufacturing company with a business model similar to that of Dell, Fuji Pharma (-23.1%), the generic drugs manufacturer, and Works Applications (-8.2%), developer of ERP (enterprise resource planning) business application software.

In terms of portfolio changes, the manager was very active over the period, buying eight companies in total of which four were telecoms companies. To help fund these purchases, it liquidated eight of its holdings, three of which were telecoms again and two others from the electric machinery sector.

Outlook

Given Japan's ongoing problem with deflation in an era when inflation is the common problem for most nations, the manager thinks Japan is the least likely of all places to see an interest rate hike, an event that tends to put a downward pressure on stock prices. In its view, during the second quarter of 2008 the Japanese economy and stock market proved their strength and resilience in the face of testing global economic conditions, whilst countries such as China and India, which were the most attractive markets of 2007, proved their lack of consistency and general frailty in the face of such problems. In addition, it adds that the US and Europe also had their fair share of problems in the face of rocketing raw materials and food prices that have restrained corporate profits and put a cap on consumer spending.

Japanese small-cap shares did not perform well in the second quarter of 2008, particularly in June when the Mothers index fell substantially. This was mainly due to the fact that small-cap stocks tend to be the hardest hit during times of economic turmoil. Looking ahead, however, the manager believes that as a result of the continued fall in their share prices, small-cap stocks, in which the Fund is primarily invested, are currently attractively valued and offer good investment opportunities, with most analysts believing that their prices have already bottomed out. More generally, the manager observes that the country's slow but gradual shift from a manufacturing-based economy to a service-oriented economy ("the New Japan"), with increased reliance on domestic rather than foreign demand, is supportive of its investment strategy.

This Fund is managed by Shiozumi Asset Management

[1] **Source for performance figures** - Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

Legg Mason Japan Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Performance Inception*
Japan TSE 1st Section (TOPIX) Index	-11.21%	-3.47%	28.00%	-0.22%	33.19%	45.82%	-15.75%
Japan Equity Fund	**-34.59%**	**-44.09%**	**-4.27%**	**-5.05%**	**151.26%**	**-16.47%**	**-2.56%**

*Launch 22.10.96

Commentary and sources for figures supplied by: Shiozumi Asset Management, Bloomberg.

Source for performance figures - Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

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This Fund may select fewer equities in which to invest. This concentration carries more risk than funds investing in a larger number of companies. This Fund may acquire shares in companies with relatively small market capitalisations and may involve a higher degree of risk. Owing to its investment philosophy, this Fund should be viewed as a high-risk investment.

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July 2008 Ref: 3667

Legg Mason US Smaller Companies Fund

Market Review

In US dollar terms, the small-cap Russell 2000 was up 0.6% versus a decline of -2.7% for the large-cap S&P 500, in a quarter that included a strong rally, which was followed by a similarly strong decline. The strength of the rally early in the second quarter propelled the Russell 2000 ahead of the S&P 500 and almost into positive territory year-to-date, before the June decline spoiled the party. Year-to-date to the end of June, the Russell 2000 was down 9.4% versus a loss of 11.9% for the S&P 500.

Financials continued to be a drag on the equity markets. Within the S&P 500, banking and related industries declined 24.9% on average during the second quarter versus a 2.7% decline for the index, both in US dollar terms. The financial services sector of the Russell 2000 was that index's worst performer, losing 13.4% for the quarter, while the index itself gained 0.6%. Overall, one-year returns were negative, but three-year returns were still positive, with large-cap holding a slight advantage over small-cap companies in both trailing performance periods.

After outperforming in the downturn, small-cap value took a backseat to small-cap growth during the second-quarter upswing. For the just completed quarter, the Russell 2000 Value index declined 3.6% versus a 4.5% gain for the Russell 2000 Growth index. This caused the small-cap value index to lose its year-to-date advantage - to the end of June, the Russell 2000 Value index was down 9.8% versus a loss of 8.9% for the Russell 2000 Growth index.

Fund Review

Against this backdrop, the Legg Mason US Smaller Companies Fund gained 6.52%[1] in sterling terms for the three months ended 30 June, 2008 outperforming its benchmark, the Russell 2000 Index, by over 600 basis points.

Of the Fund's nine equity sectors, four were positive contributors to performance on a dollar basis, while consumer products and technology were the worst performing sectors. Within consumer products, the sports and recreation group and the apparel, shoes and accessories industry were the loss-leading industries. Natural resources was the best performing sector for the quarter, highlighted by the energy service industries. In fact, gains from the natural resources and industrial products sectors far outweighed net losses on a dollar basis.

Year-to-date results were similar. Only two of the Fund's nine equity sectors made a notable positive contribution. Natural resources was again the leading sector year-to-date, led by the energy services group and the oil and gas industry. Dollar-based net gains in the natural resources and industrial products sectors outpaced net gains and losses from the portfolio's other sectors. Technology and consumer products were the worst performing sectors on a dollar basis year-to-date.

In terms of stock selection, Arkansas Best in industrial services and Ensign Energy Services and Oil States International, both in the natural resources sector, were the best performing companies over the quarter. Conversely, Silver Standard Resources in natural resources, Woodward Governor in industrial products and Thor Industries in consumer products were the three worst performing stocks.

Outlook

In terms of the outlook, the manager believes that small-cap is likely to lead the market during any rally but expects that over the next year to eighteen months these rallies will be fairly brief. Indeed, low returns and a lot of volatility should be the order of the day. The manager therefore anticipates that investors will be looking for lower risk in the form of company quality, especially if the bond markets begin to struggle as many people expect. The manager see the next twelve to twenty-four months as a time to prepare and position its portfolios for a market and economic rebound that looks at least a year or two away. In the meantime, the manager will continue to do what it always does – buy what it thinks are high quality smaller companies trading at attractive prices.

This Fund is managed by Royce & Associates

[1] **Source for performance figures** - Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. Copyright © 2008, Morningstar, Inc. All Rights Reserved. For more information, visit www.funds.morningstar.com.

Legg Mason US Smaller Companies Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Inception*
Russell 2000 Index	-15.52%	7.34%	11.05%	10.74%	-	-	13.68%
US Smaller Companies Fund	**-2.55%**	**10.84%**	**17.13%**	**11.87%**	**-**	**-**	**45.50%**

*Inception date 29.03.04.

Commentary and sources for figures supplied by: Royce and Associates, LLC.
Source for performance figures: Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.funds.morningstar.com.

The Legg Mason US Smaller Companies Fund is a sub-fund of Legg Mason Funds ICVC, an umbrella fund established as an investment company with variable capital, and is authorised in the UK by the Financial Services Authority as an undertaking for collective investment in transferable securities.

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This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus - please refer to the Simplified Prospectus and Prospectus documentation, which describe the full risk factors associated with this Fund.

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July 2008 Ref: 3704

Legg Mason Sterling Corporate Plus Bond Fund*

Key Points

- The Legg Mason Sterling Corporate Plus Bond Fund posted a return of -1.52%[1] in sterling terms over the second quarter, performing in line with the IMA UK corporate bond sector.
- The Fund's exposure to investment grade and high yield corporate bonds added value early in period, but experienced a setback in June. Elsewhere, exposure to mortgage-backed securities and index-linked bonds benefited performance.
- The manager continues to think that non-government sectors offer longer term value opportunities. The slow and gradual return of liquidity in capital markets should help these bond prices to recover over the medium term.

Market Review

UK gilts led global developed government bond markets in weakening during the second quarter, as the flight to quality diminished and investors increasingly focused on the upside risks to global inflation rather than the downside risks to growth. Meanwhile, non-government bond sectors, including mortgage-backed securities (MBS), investment-grade and high yield corporate bonds, recovered somewhat. However, any recovery in risk appetite was likely to face setbacks and this is indeed what occurred during June, against a backdrop of rising commodity prices and the major global central banks' increased concerns over the outlook for inflation.

Initially, investors became more optimistic following the US Federal Reserve's (Fed) rescue of investment bank Bear Stearns in mid-March and the announcement of additional lending facilities by the Fed and the Bank of England (BofE), leading them to unwind some of their safe-haven investments in government bonds and reallocate funds to the riskier segments of the bond market. The Fed and the BofE trimmed interest rates early in the quarter on the back of concerns over the deteriorating growth outlook and the continued problems in credit markets. However, concerns over the outlook for inflation led these banks to leave rates unchanged over the remainder of the quarter. Towards the end of the period, investors gave up expectations of further rate cuts and instead started to discount the possibility of rate hikes in the US and the UK going forward.

Fund Review

The Legg Mason Sterling Corporate Plus Bond Fund posted a return of -1.52%[1] in sterling terms over the second quarter, performing in line with the IMA UK corporate bond sector.

During the quarter, the Fund's exposure to investment grade corporate bonds, emphasising European subordinated bank issues, and its moderate and well diversified exposure to high yield corporate bonds added value early in the quarter, as these sectors benefited from investors' increased appetite for risk. However, these allocations detracted from performance later in the quarter, as risk aversion returned. Elsewhere, the Fund's exposure to MBS and index-linked bonds and its underweight position in eurozone government bonds had a positive impact on performance.

Outlook

Looking ahead at the second half of 2008 and 2009, the manager's core views have not changed. The manager believes that the Fed is unlikely to need to hike policy rates to bring inflation under control and that the market has overreacted by pricing in a number of rate increases. It continues to expect a gradual economic recovery in the US later this year and believes that the market has become too pessimistic on inflation. In the UK, economic growth has decelerated and forward-looking indicators imply further weakness ahead. Slowing consumer spending should lead to a reduction in price pressures, opening the way for the BofE to ease policy rates further over the medium term. In the eurozone, the manager believes the European Central Bank will continue to increase interest rates modestly, but slower growth later this year is likely to limit these actions.

The manager continues to think that non-government sectors offer longer term value opportunities. Prices in the riskier segments of the bond market have been driven down by risk aversion and a lack of liquidity. However, the slow and gradual return of liquidity in capital markets should help these bond prices to recover over the medium term. The manager sees the strongest valuations in select lower-quality investment grade and high yield corporate bonds and MBS. It also aims to maintain a small exposure to emerging market corporate bonds.

This Fund is managed by Western Asset Management

* Previously known as the Legg Mason Strategic Bond Fund.

[1] Source for performance figures: Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

Legg Mason Funds ICVC

Legg Mason Sterling Corporate Plus Bond Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	30.06.07 30.06.08	30.06.06 30.06.07	30.06.05 30.06.06	30.06.04 30.06.05	30.06.03 30.06.04	5 Years	Since Performance Inception[2]
Legg Mason Sterling Corporate Plus Bond Fund[3]	**-6.82%**	**2.06%**	**-0.10%**	**11.74%**	**1.04%**	**7.25%**	**50.96%**

[2] Performance Inception Date 12.02.1998

[3] The Legg Mason Strategic Bond Fund was renamed Legg Mason Sterling Corporate Plus Bond Fund on 1 July 2008.

Source for performance figures: Morningstar, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in sterling for A class shares. For more information, visit www.morningstar.co.uk

The Legg Mason Sterling Corporate Plus Bond Fund is a sub-fund of Legg Mason Funds ICVC, an umbrella fund established as an investment company with variable capital, and is authorised in the UK by the Financial Services Authority as an undertaking for collective investment in transferable securities.

The annual charges are levied against capital and while this will increase distributable income, it may constrain or erode capital growth.

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July 2008 Ref: 3709

Legg Mason Funds ICVC

Legg Mason Global Equity Income Fund

Market Review

For most investors in global equity markets June was a roller coaster ride, as was the second quarter of 2008 as a whole. Market volatility, triggered by weakening economic growth, fears of a recession, soaring oil prices, and a worsening credit crunch, resulted in equity markets selling off across the globe.

The MSCI World index was down by 1.04% over the quarter in local currency terms and 1.66% in US dollar terms. Index markets were largely negative. In Europe, several indices reported significant declines in local currency terms: Ireland -17.22%; Portugal -13.57%; and France -3.39%. In Asia, indices reflected significant volatility with Japan up by 9.13% in local currency terms, while Singapore, Hong Kong, and India, declined by 3.75%, 2.27% and 9.70%, respectively. On a relative basis, the US market underperformed the EAFE markets as the S&P 500 Index returned -2.73% in local currency terms. Turning to industry sectors, energy was the only area to post positive returns over the second quarter.

Fund Review

The Legg Mason Global Equity Income Fund was launched on 23 May 2008. Performance cannot be shown in this Fund update due to Financial Services Authority (FSA) regulations. We are unable to show performance figures until the Fund has been active for 1 year.

In terms of its positioning, however, at the end of June the Fund was overweight in the health care, industrials, materials, and utilities sectors relative to its benchmark, while sectors in which it was underweight included consumer discretionary, financials, information technology and energy.

Outlook

The Fund's investment manager believes that earnings expectations have been unrealistically high and it anticipates continued downward revisions into the second half of the year. The manager remains very concerned about the high level of profit expectations given the backdrop of rising rates, increased input and labour costs, greater competition and slowing revenue growth rates. In short, it notes that not all businesses can raise prices faster than costs in a slowing global economy.

Overall, however, as a long-term investor, the manager seeks to put the current market volatility in perspective, believing that when markets 'normalise' and securities once again have a relationship to underlying fundamentals, the portfolio may be well-positioned to capture potential upside. The manager sees significant long-term opportunities in both out-of-favour sectors and in areas where businesses are aligned with the expanding drive for efficiency and growing abundance of the global economy. Its focus is to identify those companies that will benefit from the globalisation trend and to de-emphasise those that are threatened by it. The manager is confident that it has positioned the portfolio to take advantage of opportunities and believes that investors who stay the course will benefit going forward.

This Fund is managed by Global Currents Investment Management

Legg Mason Global Equity Income Fund

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