Legg Mason Global Funds

Legg Mason Value Fund

Market Review

US stocks declined modestly in December, wrapping up a disappointing quarter in which the S&P 500 declined 3.33%. This was the worst fourth-quarter performance for the index since 2000's 7.82% decline, and represented only the fourth time in the last 25 years that the S&P 500 has posted a negative return in the final three months of the year. For the year as a whole, the S&P 500 posted a moderate total return of 5.49%. The Dow Industrial Average's return was slightly better at 8.88%, and the Nasdaq Composite's better still, at 10.66%. Previously noted style tilts toward large-cap and growth were very much in evidence in the full-year numbers, as the large-cap indices outperformed the Russell 2000 Index by 700 to 800 basis points, depending on the index, and the Russell 1000 Growth Index outperformed its value counterpart by nearly 1200 basis points.

TOTAL RETURNS* (US dollars)

	Dec	Q4	Year
S&P 500 Index	-0.69%	-3.33%	+5.49%
Dow Industrials	-0.66%	-3.91%	+8.88%
Nasdaq Composite Index	-0.27%	-1.62%	+10.66%
S&P Mid-Cap 400 Index	-0.19%	-2.73%	+7.98%
Russell 2000 Index	-0.06%	-4.58%	-1.57%
Dow Jones Wilshire 5000 Index	-0.61%	-3.22%	+5.62%
S&P 100 Index	-0.74%	-3.48%	+6.12%
Russell 1000 Growth Index	-0.36%	-0.77%	+11.81%
Russell 1000 Value Index	-0.97%	-5.80%	-0.17%

* Source: Bloomberg, Wilshire, Russell

Hopes that the New Year might see a reversal of the fourth quarter's decline were quickly dashed, as the S&P 500 was down more in the first three trading days of 2008 (-3.84%) than it had been in the last three months of 2007. The Dow Industrial Average was down over 464 points (-3.47%) over the same three days, a start that Bloomberg News reported as the worst since 1904. We don't have good pricing data back that far, so we'll take Bloomberg at their word. The only years we could find to rival 2008's dismal start were 2000 and 1932. The first three trading days of 2000 were worse than this year for the S&P 500 (-4.56%), but not quite as bad for the Dow Industrials (-3.25%). The opening trading sessions of 1932 were a real rollercoaster ride. The Dow and S&P 500 were down 8.55% and 7.02%, respectively, in the first two trading days of 1932, but rallied sharply from there to finish the first week of trading (through Friday, January 8, 1932) up 5.01% and 5.54%, respectively, from their year-end closes. It's probably too much to hope for that kind of rally in the coming days, but it's nice to dream!

In our opinion, the proximate cause of the market's weakness in the fourth quarter of 2007 and the early days of 2008 is that it has begun discounting a recession in the US. In fact, the market is behaving as though a US recession is a virtual certainty. While we disagree that a recession is a foregone conclusion, recent developments have led us to believe that the odds that we are already in, or on the cusp of, a recession are now greater than 50/50. We put the current odds at about 55% to 60%. Our thinking has been influenced by a number of factors, including: (1) continuing unsettled conditions in the credit markets; (2) the action of the stock market itself, most notably, the continued weakness in consumer discretionary and financial stocks; (3) the weak December jobs report and the spike in the unemployment rate to 5%; (4) the decline in the Institute for Supply Management (ISM) manufacturing index to 47.7 in December, from 50.8 in November; and (5) the "wisdom of crowds" as reflected in the prediction market Intrade.com, which now puts the odds of recession in 2008 at about 60%.

If one could know with any degree of certainty that the economy was, in fact, slipping into recession, this information would be highly valuable, since stocks typically weaken in anticipation of recession, bottom out about halfway through it, and have already recovered much or all of their prior losses by the time it ends. Thus, it seems imminently logical that when a recession is on the way, one would sell stocks, waiting on the sidelines until the recession was about half over, and then buy back into the market. The problem with this approach is that recessions are notoriously difficult to predict and most are not identified until well after they have begun, or, in the case of the two most recent recessions, until after they have ended. Faced with this difficulty, at any hint of recession, market participants have historically tended to sell first and ask questions later. This tendency is likely the reason that Nobel prize-winning economist Paul A. Samuelson is famously reported to have quipped: "The stock market has forecasted nine of the last five recessions."

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LEGG MASON

Legg Mason Value Fund

Though we have recently come to believe that a recession in 2008 is more likely than not, a number of economists and strategists we admire are still betting the other way. ISI Group's models are still predicting a mid-cycle slowdown, but no recession. Their models are forecasting real GDP growth for the next couple of quarters to be in the range of 1%. Anatole Kaletsky and Charles Gave of GaveKal Research also believe that the US will avoid recession in 2008, but just barely. They note that the US has never experienced a recession without real rates on long bonds moving above 3%, and often above 4%. Current real rates on 10-year and 30-year Treasuries of about 1.6% and 1.9%, respectively, are nowhere near those levels. GaveKal further notes that despite falling below 50, the current 47.7 reading on the ISM manufacturing index is consistent with real GDP of 1.5% to 2.0%. According to their work, the "recession trigger" on the ISM manufacturing index is 41.9.

The rising odds of recession have increased the likelihood of further Fed easing, in our opinion, a view that is shared by Fed funds futures market participants. As of January 8, futures prices indicated that it is a near certainty (98.5%) that the Fed will cut rates at the end of January, with a 38.6% chance of a 25-basis-point cut, a 50.3% chance of a 50-basis-point cut, and a 9.6% chance that the cut will be 75 basis points.

Declining stock prices, $100 oil, weak jobs and manufacturing reports, and the spike in unemployment have soured investors' appetite for stocks considerably in the last few weeks. In fact, one measure of investor sentiment—the American Association of Individual Investors (AAII) survey—has reached such depths of pessimism that it may be signaling that a meaningful rally in stocks is in the offing. A report from JPMorgan strategist Thomas J. Lee released on January 7, 2008 noted that the percentage of bearish investors in AAII's latest weekly survey (1/04/08) exceeded the percentage of bulls by 29.5%. Only 15 times in the last 1,100 weeks, or 1.4% of the time, have the percentage of bears exceeded the percentage of bulls by 26% or more. In every prior instance when the reading was this negative, the S&P 500 was higher in 12 months by an average of over 20%. We, of course, can offer no assurance that the market will rally this time, but this contrary indicator's past record of success is impressive and should offer investors some encouragement.

Fund Review

The Legg Mason Value Fund underperformed the market by 221 basis points in December, declining 2.90%[1] versus a 0.69% decline for the S&P 500 Index. For the year as a whole, the portfolio was 1286 basis points behind its benchmark, having declined 7.37% versus a 5.49% gain for the S&P 500 Index.

Value Fund Bottom Contributors October 2007[2]

	Return	Weight	Contribution
Sprint Nextel Corporation	-15.26	4.46	-0.68
Yahoo!	-13.24	3.82	-0.51
Citigroup	-12.24	3.16	-0.39
Amgen	-15.90	1.66	-0.26
Countrywide Financial Corporation	-17.38	1.33	-0.23
JP Morgan Chase & Co	-4.32	4.77	-0.21
Eastman Kodak	-6.79	2.92	-0.20
General Motors Corporation	-16.43	1.10	-0.18
Capital One Financial Corporation	-11.08	1.43	-0.16
The Bear Sterns Companies	-11.48	1.35	-0.16

Sprint Nextel topped the list of major detractors for last month, as investors grew impatient over the lack of tangible progress in the wireless operator's turnaround. During his visit to our office in early December, then-interim CEO Paul Saleh laid out a credible game plan to improve the customer experience and simplify the company's business model, and we expect Dan Hasse, Sprint's new CEO, to carry the baton from here. Having served at the helms of both established enterprises (AT&T Wireless and Embarq) and a telecom start-up (Terabeam Networks), Mr. Hasse appears to be well qualified for the leadership position. However, the long-term benefits that Sprint's turnaround efforts should deliver, and the value to be unlocked in its underappreciated assets, did little to quench investors' thirst for short-term results. Its shares lost 15% of their value as investors bailed out, citing no "catalyst" in sight.

[1] Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.
[2] This attribution represents our unconstrained model portfolio. Exact weightings in some client portfolios may differ slightly from the model, and, therefore, precise attribution may also differ slightly.

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A short-term "catalyst" also proved elusive for Yahoo!, whose shares slumped 13% in the past month. The company is immersed in a difficult battle with Google for supremacy in online advertising and commerce. Its user growth is slowing. Part of its lucrative portal fees (17% of total revenue) collected from high-speed subscription deals with telecom companies (particularly AT&T) appear at risk as the original agreements came up for renewal. Adding insult to injury, Yahoo!' got a black eye when its hosted shopping service suffered an outage on the all-important "Cyber Monday," the Monday after Thanksgiving that marks the beginning of the e-commerce holiday shopping season. Long-term investors, however, would notice that excluding the value of its Asian investments (Alibaba, Yahoo! Japan, and Gmarket), Yahoo! is trading at a modest valuation level that is more suitable for secularly challenged old media companies, and thus offers an attractive risk-reward proposition.

Biotech company Amgen develops novel therapies for diseases ranging from anemia to osteoporosis, but was hardly able to find a cure for its stock, which tumbled 16% in December. News that the FDA would host another advisory committee meeting in the first quarter of 2008 to discuss safety issues concerning Amgen's anemia drug Aranesp struck a raw nerve, as investors who were burned by the negative outcomes from two previous FDA meetings on biotech drugs had little appetite for a third round. Incredibly, even positive clinical data for Amgen's osteoporosis drug candidate denosumab was met with heavy selling, a telltale sign of the extreme pessimism surrounding the company.

The rest of the bottom contributors came from the usual suspects of financial and consumer discretionary holdings. In December, further deterioration of the housing market, tight liquidity conditions, and signs of a credit contagion in an economy wobbling on the verge of a recession sent financial stocks sharply lower (with the S&P 500 Financials sector index down 5.4%). To our encouragement, policymakers were galvanised into action, with initiatives including the Fed's interest rate cut and liquidity injection through its Term Auction Facility, and the Bush administration's plan to help as many as 1.2 million mortgage borrowers. Dubbed "Hope Now," the administration's plan would temporarily freeze rates on qualified adjustable-rate mortgages (ARMs) and encourage refinancing by allowing state and local governments to use more tax-exempt bond programs to fund refinancing. The financial stocks' reactions, however, were lacklustre.

At Citigroup, newly appointed CEO Vikram Pandit and Chairman Win Bischoff hardly got a honeymoon. Instead, continued pressures in the credit market forced the company to consolidate $49 billion of structured investment vehicles (SIVs) onto its balance sheet, taking a 16-basis-point hit to its tier-one capital ratio and triggering a credit downgrade (from Aa2 to Aa3) from rating agency Moody's. Similarly, Bear Stearns also suffered from a Moody's downgrade (from A1 to A2) in the wake of the worst quarter in its history and a larger-than-expected charge of $1.9 billion to eliminate the company's on-balance-sheet CDO exposure. Both companies saw double-digit share price declines. Even JPMorgan Chase, which has fared far better than its peers in the current credit storm thanks to its smaller exposure to subprime mortgages and its absence from SIV deals, lost 4% in value as investors fretted about its "material exposure" to credit card, home equity and corporate credits. For a consumer finance company such as Capital One, the fear of contagion was even more acute. With the company's elevated delinquency rates in November leading to predictions of greater credit losses down the road, investors fled in droves, turning a blind eye to the stock's depressed valuation. Finally, it seems that no discussion about the financial sector's plight would be complete without Countrywide Financial, the poster child of the current mortgage crash. Having reported a continued decline in loan volumes and increases in delinquency and foreclosure rates, the beleaguered home lender also found itself the subject of a lending practice investigation by the Illinois Attorney General. After a 17% decline, Countrywide is trading at 0.3 times book value, the lowest of the above five companies (the highest-valued stock, JPMorgan Chase, trades at a modest 1.2 times book value).

Investors also showed a strong distaste for anything exposed to the "extended" US consumer, evidenced by the 5% December slump in the S&P 500 Consumer Discretionary sector index. Kodak's potential completion of a multi-year transformation from a secularly challenged silver-halide film producer to a digital imaging technology company did not cheer investors, who simply reshuffled their list of worries to reflect competitive concerns in the inkjet and commercial printing market. And what was more straightforward than selling General Motors when consumers appear tapped out and oil prices kept rising? Never mind that GM is set to embark on a plan to reduce its North America fixed costs (including labour) by $5 billion in the next three to five years (leading to a $4.50 per share increase in earnings power), or that the company is confidently playing offense in emerging markets (evidenced by its recent bid for Russia's AvtoVaz) – alas, the payoffs of these current efforts fall way beyond the investment horizons of the momentum-driven crowd that is currently dominating the markets.

Top Contributors October 2007[2]

	Return	Weight	Contribution
UnitedHealth Group	5.82	5.41	0.32
Qwest Communications International	5.73	3.74	0.21
Aetna	3.31	4.86	0.16
Amazon.com	2.37	6.70	0.16
Centex Corporation	21.09	0.61	0.13

[2] This attribution represents our unconstrained model portfolio. Exact weightings in some client portfolios may differ slightly from the model, and, therefore, precise attribution may also differ slightly.

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On the positive side, our managed care holdings outperformed in December as investors sought shelter from the expected economic weakness. Shares of UnitedHealth Group were buoyed by management's reaffirmation of its earnings guidance for 2008. Moreover, the company's current priority of stabilising and growing its commercial business while maintaining healthy momentum in the Medicare market should be aided by a favorable industry environment of accelerating rate increases. Other reports indicated that UnitedHealth may repurchase $5 billion of its shares in 2008, or 6% of total shares outstanding, funded by increasing its debt/capital ratio to its target of 40%. Similar capital allocation initiatives may also help industry cohort Aetna, in our view. In addition, we believe that Aetna's market segmentation strategy should allow the company to pursue underpenetrated market niches, improving both its growth profile and its medical loss ratio.

Shares of Qwest rose nearly 6% in the past month after the telecom provider delivered a holiday gift that investors have been eagerly anticipating – the resumption of dividends. At $0.08 per share, the newly reinstated quarterly dividend represents a 4.6% yield based on Qwest's month-end price. Investors were also encouraged by a strategy conference call in mid-December when management indicated continued capital spending discipline, boding well for healthy free cash flow generation in 2008.

Recent service enhancements from Amazon.com piqued investors' interest and bolstered its shares. First, in mid-December Amazon signed an agreement with payment provider Bill Me Later to broaden the online payment options for its customers. In the short term, the new payment platform should give the company a low-cost alternative to credit cards, potentially leading to meaningful cost savings as credit card processing fees account for 200 basis points in its cost structure. In the long term, this deal and Amazon's recent launch of its Flexible Payment Service may represent important pieces in the company's strategy of enabling e-commerce in its nascent "ecosystem." Indeed, days after the Bill Me Later deal, Amazon introduced SimpleDB, a Web service for running queries on structured data in real time. With a growing portfolio of Web service solutions, Amazon is growing beyond its online retailing roots and gradually emerging as an open-source Web platform company.

The final entry in the top contributors' list came from an unexpected source – homebuilder Centex broke into the top five with a 21% rise. Much of that surge came after the announcement of Hope Now, the Bush administration's plan to temporarily freeze interest rates for qualified ARM borrowers. To the extent that foreclosures may be avoided under the proposed plan, the housing market – and therefore the homebuilders – should benefit from fewer forced sales of repossessed homes. The narrower-than-expected fourth-quarter loss at peer Toll Brothers also helped investors' sentiment.

Outlook

In our view, the range of possible outcomes for the market in 2008 is wider than usual. Our best guess is that the US equity market will post mid- to high-single-digit returns for the year, but we recognise there are plausible scenarios for returns that are both much better and much worse than that. In addition, returns could well be back-end loaded, with the first quarter and possibly first half tending to be weak, and with strength emerging in the second half of the year.

From a historical perspective, presidential election years have typically been good ones for the stock market. In the 20 presidential election years since 1928, the S&P 500 has been up an average of 9% (excluding dividends), showing gains 15 times and losses 5 times. The skew of returns has also been favorable, as the market has been up 10% or more twice as often as it has been down.

While election year returns have been above average overall, they tend to be heavily dependent upon whether the incumbent party wins or not. Based on data from Ned Davis Research, since 1888, presidential election year returns have averaged 8.4% (ex-dividends). When the incumbent party wins, the returns have averaged 13.9%, while when it loses, the returns have averaged only 1.6%. Since the Democrats are currently given better than a 60% chance of retaking the White House from the Republicans by bettors on Intrade.com, we need to be realistic about our expectations for an election year tailwind.

From a pure valuation standpoint, the market appears to be trading at a significant discount to fair value based not only on our own work, but also on that of other strategists whose work we admire. One of those is Tobias Levkovich, Chief US Equity Strategist for Citigroup Global Markets. Levkovich's market valuation model compares the trailing P/E of the S&P 500 to the yield on the 10-year Treasury note plus an equity risk premium, and finds a statistically significant inverse correlation of 0.73 between the two. Since 1961, when the actual trailing P/E of the S&P 500 has been more than one standard deviation below its fair value trend line P/E (as it is currently), the S&P 500 has always been up over the next 12 months, with an average gain of 23%.

Our own valuation work estimates the current fair value multiple of the S&P 500 to be about 18.5 times earnings, based on the following set of assumptions: (1) long-term earnings per share growth of 6%, (2) return on equity of 16%, (3) weighted-average cost of capital equal to the 10-year Treasury note yield plus an equity risk premium of 4%, and (4) a 20-year competitive advantage period (CAP), which is our estimate of the length of time that the S&P 500 as a whole will earn returns in excess of its cost of capital.

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Legg Mason Value Fund

Our fair value estimate of 18.5 times earnings for the S&P 500 compares to year-end P/Es for that index of 16.7 and 14.7 for 2007 and 2008, respectively, based on bottom-up, cap-weighted consensus earnings estimates, implying market undervaluation of better than 10% on 2007 estimates and more than 20% based on 2008 figures. The composite earnings per share estimates for the S&P 500 for 2007 and 2008 derived from aggregating bottom-up numbers are $88.19 and $99.75, respectively. The 2007 composite earnings estimate has come down from $93 or so in the last few months and is probably fairly close to right, in our opinion, but the accuracy of the 2008 estimate is an open question.

Based on the slowing economy, the trend of earnings revisions and the increasing odds of recession, the 2008 S&P 500 composite estimate looks high to us by $5 per share or so. Using a composite estimate of $95 per share would mean that the S&P 500 began the year trading at about 15.5 times earnings and has dropped under 15 times following its early year weakness. Even if earnings are flat in 2008, the S&P 500's multiple would still be under 17 times earnings. Only a drop in composite earnings to less than $80 would make the market look overvalued, based on our work. This is a scenario about which investors appear to be increasingly worried.

Apart from material earnings weakness, we think the other key risk to the market as a whole is the increasing likelihood that tax rates on dividends and capital gains will rise after 2010 if, as now seems probable, a Democrat wins the presidency in 2008. Jason Trennert of Strategas Research Partners estimates that if capital gains tax rates were to rise to 28% and tax rates on dividends were to rise to 39.5%, it would shave two multiple points off the market's fair value. In our opinion, the key takeaway from our and others' valuation work is that the market does appear to be undervalued, but probably not as much so as the consensus numbers suggest.

Speaking of valuation, in order for it to matter, investors have to care about it, which they clearly did not in 2007. As we have reported in our last few commentaries, according to data from Empirical Research Partners, the cheapest stocks in the market based on a composite of valuation factors underperformed the most expensive stocks on those metrics by nearly 2500 basis points in 2007. At the same time, those stocks with the best prior price momentum outperformed their weaker counterparts by more than 3300 basis points, a truly astounding premium. We would be very surprised if these trends persist throughout 2008. We believe that valuation will ultimately matter, as it always does eventually, and when the turn comes it will be a powerful one.

In summary, we believe 2008 could well turn out to be a volatile and difficult year. It certainly has been to this point. The market is currently weak and could remain so through the first quarter. On the other hand, investor sentiment as measured by the American Association of Individual Investors (AAII) survey data is about as pessimistic as it ever gets, suggesting that a powerful rally may be in the offing. On balance, market valuation is quite supportive of higher prices, in our view. A near-term key to the direction of the market is satisfactory resolution of turmoil in the mortgage market. Easing of tensions there could trigger a powerful rally in stocks, but continued turmoil could drag the economy into recession and precipitate a bear market in equities.

As always, we thank you for your support and welcome your comments.

David E. Nelson, CFA
Chairman, Investment Policy Committee
Legg Mason Capital Management Inc.

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Legg Mason Global Funds

Legg Mason Value Fund

Important Information

Rolling 12 Month Performance to Latest Month	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	Performance Since Inception
S&P 500 index	5.49%	15.79%	4.91%	10.88%	28.69%	56.74%
Value Fund	**-7.37%**	**5.26%**	**4.88%**	**11.17%**	**42.32%**	**73.15%**

*Five year figures are to 31 December 2007

Commentary and sources for figures supplied by: Legg Mason Capital Management Inc.
Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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LEGG MASON

Western Asset US Money Market Fund

Market Review

Problems in the subprime mortgage market continued to affect financial markets over the fourth quarter, with a number of large financial institutions announcing significant write-downs relating to mortgage-backed securities. Concerns over the impact the crisis may have on the US economy led the Federal Reserve to trim interest rates by a total of 50 basis points, leaving rates at 4.25% at year-end. As investors discounted more aggressive monetary easing by the Fed, short-dated government bonds strengthened significantly over the quarter.

While the economic backdrop weakened over the period, soaring food and energy prices fuelled a renewed rise in headline inflation. Oil prices surged to around $100/bbl as global demand remained strong. The Fed remained mindful of continued inflationary pressures and preferred to use alternative tools to monetary easing to satisfy their responsibility as lender of last resort.

As lending activity remained severely strained throughout the period and Libor rates remained elevated, the Fed intervened directly in money markets with significant liquidity injections in December. This had some success in providing banks with necessary funding and bringing down money market rates before year-end.

Fund Review

The Western Asset US Money Market Fund gained 1.10%[1] in US dollar terms over the fourth quarter, compared to a dollar gain of 0.92% recorded by its benchmark, the Citigroup One Month US Treasury Bill Index. The manager continued to favour more liquid investments such as highly rated bank obligations and reduced the Fund's weighted average life and average duration over the quarter. (Duration measures a portfolio's sensitivity to interest rate changes). As some of the portfolio's holdings in asset-backed commercial paper matured over the quarter, these were replaced with certificates of deposit (CDs), US government agencies and non asset-backed commercial paper. The portfolio's exposure to mortgage-backed and asset-backed securities had a negative impact on performance.

Outlook

At year-end, the manager was expecting the Fed to reduce interest rates further in early 2008 as the economy weakens. (Indeed, the Fed cut rates by a further 125 basis points in January.) However, the manager expects the credit crisis to pass without tipping the economy into recession.

The Fund is managed by Western Asset Management.

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Legg Mason Global Funds plc

Western Asset US Money Market Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Performance Inception*
Citi 1 Month US Treasury Bill Index	4.56%	4.75%	2.93%	-	-	-	13.94%
Western Asset US Money Market Fund	**4.60%**	**4.41%**	**2.16%**	**-**	**-**	**-**	**12.08%**

*Performance Inception Date 27.02.04

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

The Western Asset US Money Market Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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Legg Mason Global Funds plc

ClearBridge US Fundamental Value Fund

Market Review

The fourth quarter continued the trend that was witnessed in the previous three quarters of calendar year 2007. Notably, growth outperforming value (as measured by the Russell 3000 Growth Index and the Russell 3000 Value Index, respectively) and large company stocks outperforming small company stocks (as measured by the Russell 1000 Index and the Russell 2000 Index, respectively). The fourth quarter was marked by a sharp contrast between a generally strong economy and a dramatic decline in the housing and financial services industries. Despite quarterly declines for the S&P 500/Citigroup Value Index and the S&P 500 Index, returns for the year were positive. Unprecedented declines in home prices and poor underwriting contributed to large losses, forcing several of the world's largest financial institutions to raise additional capital. After keeping Fed fund rates steady at 5.25% since June 2006, the Fed cut rates by 50 bps in September and an additional 25 bps in the next two meetings ending the year at 4.25%.

Fund Review

Against this backdrop, the ClearBridge US Fundamental Value Fund lost 4.36%[1] in US dollars for the period, versus a benchmark loss of 3.34% for the Russell 3000 Index, again in dollar terms.

Relative to the benchmark Russell 3000 Index, the Fund's performance for the three month period was hurt by sector allocation and, to a lesser extent, by stock selection. Underweight positions in the utilities, consumer staples and energy sectors, and an overweight position in consumer discretionary, detracted from the Fund's relative performance. The Fund had no significant holdings in the utilities sector during the period. Overweight positions in the information technology, materials and health care sectors, and an underweight position in the financial sector, made a positive contribution to the Fund's relative performance. Stock selection in the information technology, materials, industrial and energy sectors detracted from Fund performance, while selection in the financial, consumer discretionary, telecommunications services, consumer staples and health care sectors enhanced the Fund's performance relative to the benchmark.

Individual stocks that made a positive contribution to performance included Microsoft, State Street, Unilever and Anadarko Petroleum, while PMI Group, Merrill Lynch, Bank of America and Cisco Systems detracted from relative performance.

The Fund established new positions in Forest Laboratories, Annaly Capital Management, Transocean and Nabors Industries. The Fund closed out positions in American International Group GlobalSantaFe, and Williams-Sonoma.

Outlook

The investment manager's outlook for 2008 is for corporate profits to slow and for oil prices to fall back by $10-$25 a barrel. The manager believes sectors such as health care, consumer discretionary, technology, industrials, including selected transportation stocks, and eventually financials, will be sectors that do the best this year. The surprise in 2008 may be a slowdown in China, which has ramped up both interest rates and reserve requirements in its banking system rather dramatically in recent months. This, in combination with slower growth in the US, should lead to a meaningful decrease in the price of oil in the first half of the year. The manager expects energy and materials, big beneficiaries of the "China trade", to be weak sectors in 2008. In 2007, they were the strongest sectors.

The manager anticipates that larger companies will continue to do better than smaller ones. It appears an inflection point has been reached and small companies now sell at about a 12% premium to larger companies, the largest such figure since 1983. It expects the dollar, which has been weak, to stabilise in 2008. Because of a weak dollar and enthusiasm for all things international, mutual fund flows for funds with a domestic focus were negative in 2007. It is possible this will begin to reverse in 2008, which also would help larger company performance. This year probably will experience higher volatility in the markets and historically this has helped larger companies in relation to smaller ones.

This Fund is managed by ClearBridge Advisors

[1] Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees in US dollars for class A shares.

Performance shown includes periods prior to the Fund's inception date, reflecting performances of a predecessor Fund from the Salomon Brothers Global Horizons Fund range, which had a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. The performance cited is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund (please refer to the latest fact sheet for further information on the fund expenses). This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund.

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LEGG MASON

ClearBridge US Fundamental Value Fund

Important Information

Rolling 12 Month Performance to End of Last Month[1]	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Performance Inception
Russell 3000 Index (USD)	5.14%	15.72%	6.13%	11.95%	31.06%	89.44%	63.07%
ClearBridge US Fundamental Value Fund (Class A Distr. USD)	**-0.47%**	**16.16%**	**4.02%**	**7.52%**	**39.21%**	**80.01%**	**139.16%**

Performance Inception Date: 03/08/1998.

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Commentary supplied by: ClearBridge Advisors.

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This Fund may acquire shares in companies with relatively small market capitalisations and may involve a higher degree of risk.

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. Before investing you should carefully read the Prospectus.

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Legg Mason Global Funds plc

Legg Mason Growth Fund

For the fourth quarter of 2007, the Legg Mason Growth Fund was down 5.17%[1] in US dollar terms, compared to its benchmark, the Russell 1000 Growth Index, which was down 0.77%. For the full year, the Legg Mason Growth Fund was up 13.59%, again in US dollar terms, compared to a dollar benchmark return of 8.29%.

We remind investors in each and every quarterly report not to overemphasise our short-term results. Even though 2007 was a good year for the Growth Fund, a breakdown of the quarterly results this year shows how volatile the year was for us. In the first quarter, the Growth Fund was nearly flat, up 0.3%. In the next two quarters (second and third quarters), the Fund was up 13.1% and 7.7%, respectively. In the fourth quarter, it gave back 5.0%. Because the Legg Mason Growth Fund is a concentrated, low-turnover portfolio, by its very nature the results of our fund will be bumpy. Now, let's be clear. The stock market is a pretty bumpy animal as well. For those who are frequent observers of the daily gyrations of the stock market, this is not news. But when we compare the behaviour of the Fund to the overall stock market, you can easily see our portfolio bounces much greater than the broader and more diversified Russell 1000 Growth Index and S&P 500 Index.

In our third-quarter letter, we discussed the issue of frequency versus magnitude. In investing, the frequency factor is how many times you are right. The magnitude factor is how much money you make when you are right. Behaviourally speaking, we all have a deep-rooted desire to be right. Let's face it, no one sets out to be wrong. But for long-term investors seeking long-term results, the issue of being right and wrong, particularly over the short-term, is not clear-cut. A simple observation of our 2007 results shows we were right only 50% of the time. That is, we outperformed (relative to the Russell 1000 Growth Index) for two quarters and underperformed for two quarters. The casual observer might claim we had a very mediocre year. Yet the final year's tally was pretty good. Why? Because when we were right, we made more money than the money we lost when we were wrong. In a game with symmetrical returns, victory does go to the one with the most-frequent wins. In a game with asymmetrical returns (which is the stock market), victory does not necessarily go to the one with the most frequent wins. We are less worried about how many times we are right, and more worried about how much money we make when we are right less how much money we give back when we are wrong.

We believe the constant desire to be frequently right might be a chief cause of mediocre long-term results. If you are constantly selling what is going down in price, which is causing you short-term mental pain, only to buy stocks that have gone up in price and are now outperforming, then we believe you are setting yourself up for very poor long term results. It is one of the great ironies of investing; once you quit obsessing over short-term performance results, it often leads the way to superior long-term performance numbers.

In the Growth Fund, we seek to own companies that are growing revenues, earnings and/or cash flows at a rate faster than the market rate. Furthermore, we want to own companies that earn a rate of return on their invested capital that is higher than the cost of capital. We know companies that are able to earn above the cost of capital create value for their shareholders, while companies that earn below the cost of capital destroy shareholder value. When a company earns above the cost of the capital, the faster the company grows, the greater the increase in shareholder value. Conversely, if a company earns below the cost of capital, the faster it grows, the quicker it goes out of business. Taken in context with return on capital, growth acts as an accelerant.

Of course, success in investing is not just a simple matter of buying fast-growing, high return-on-capital businesses. There is a small matter of determining the price one should pay for these above-average economic businesses. If you pay a price above the company's intrinsic value, you get an investment return below the economics of the business. No matter how high the return on capital or how fast the company is growing, if you overpay for the stock, you end up with a lousy investment. If, on the other hand, you identify a fast-growing, high return-on-capital business with a stock price below its intrinsic value, then as an investor you are in for a real treat. Not only do you earn, over time, the economics of the business, but you also get the accrued bonus of earning the discount to the intrinsic value you paid. It is potent "one-two" punch for performance.

As a growth investor, We are constantly on the prowl for rapidly growing, value-creating businesses. The difficult challenge I face is not so much identifying great businesses, but determining what would be a fair price to pay for the business. A fair price for me is a number below the intrinsic value of the business. To calculate the intrinsic value of a company, we seek to determine what will be the cash flows of the business over the forecast period discounted back to present value. The complexity of using dividend discount models is figuring out the sustainability of the cash flows over time. The challenge is not so much determining what the cash flows will look like next year, but what will they look like three years from now, five years from now, and even ten years from now.

When I think about a company's cash flows years from now, I first think about the economic landscape of the industry in which the business operates. I am naturally attracted to industries that are expanding at an above-average rate, which means I am often looking at companies whose products and services are in high demand not only here in the United States but overseas as well.

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Legg Mason Growth Fund

In the Growth Fund we own internet service providers, wireless communication and technology companies, engineering and infrastructure companies, entertainment businesses and selected global financials. Each of our companies operates in an industry that has significant demand for its products and services not only here in the US, but in the broader global market place as well. Furthermore, and this is important, we believe the demand for our company's products and services is something that will last not just for a year or two, but for several years to come. In short, we own, in our opinion, great companies in dynamic industries participating in a robust global economic landscape. Today, the companies in our portfolio on a weighted-average basis generate approximately 50% of their revenues outside the United States.

In 2007, the top three leading contributors to our performance came from three different industries: internet, wireless telecommunications, and infrastructure.

Amazon.com had a terrific year in its business operations, and because the market had fairly low expectations for the company, we got the "one-two" punch in performance. The economics of Amazon's business did very well, and because the stock was selling at a big discount, we got a big lift in share price. Since Amazon was one of our better risk-reward ideas, we made it our largest holding at the end of 2006. The combination of portfolio weighting and stock performance greatly aided our performance.

As Amazon's stock price rose, we systematically reduced our weighting in the stock. With the profits we realised from our investment in Amazon, we in turn increased our weighting in Yahoo! It is now our number one holding. Remember, when we made Amazon our biggest holding, we had no premonition the stock would be an immediate performer, only that the stock was greatly undervalued relative to our calculation of value. We feel the same way about Yahoo! We have no idea when Yahoo! will perform for us. However, we believe the risk-return is very much in our favour, and as such, we will be patient.

Nokia was the second-biggest contributor to our 2007 performance. We have owned Nokia for three years, but last year was the first time we were significantly rewarded for owning the business. We have long believed Nokia, the world's largest cell phone manufacturer, would be able to maintain its lead as the number one supplier of low-price commodity phones in the rapidly growing emerging market. Today, Nokia is the number one provider of cell phones in both China and India. In addition, Nokia has been very successful in moving existing customers up the value chain to the higher-margin smart phones. The company has been very successful in dominating both segments of the market. The benefit to Nokia occurs over time, as many individuals who purchase Nokia's higher-priced smart phones were once satisfied customers of its lower-priced entry-level phones.

We have not cut back our position in Nokia. Despite last year's superior performance, the stock continues to look very cheap to us. The company now expects its operating margins will be between 16%-17% over the next two years versus its prior guidance of 15%. We expect sales to grow near 17% over the next few years, with cash flow growth averaging 15%. The company has a 6% free cash flow yield, little debt and earns over 40% on capital. Yet the company trades at 15.5 times what we think the company will earn in 2008. Nokia has a strong balance sheet and grows sales and earnings at a double digit rate while earning well above its cost of capital, and still the stock trades below the average market multiple. We believe Nokia represents a very strong risk-reward investment for our portfolio.

The third-biggest contributor to our performance this year was Foster Wheeler. In past quarterly reports we have written about the worldwide need for infrastructure build out. Foster Wheeler's focus on the oil and gas industry, where there is a significant backlog in Asia and the Middle East, positions it well to benefit from multi-year infrastructure upgrades in emerging markets. About 80% of Foster Wheeler's business is conducted overseas. We have also benefited from our other infrastructure investments, including Fluor Corporation and Shaw Group. Although Shaw Group generates a majority of its business here in the United States, it is well positioned to benefit from the long-term need to build and upgrade our electric utility industry. Shaw Group enjoys a huge backlog of projects that should help support continued growth for several years to come.

Although we had a good deal of success in our portfolio in 2007, we also had our fair share of disappointments. When we look at the companies that penalised our performance, it was largely the financial services companies. Specifically, Countrywide Financial, E*Trade, Citigroup, and American International Group generated negative returns for our portfolio. Only Goldman Sachs, the one major brokerage firm that dodged the subprime debacle, added positively to our returns.

In our 2007 third-quarter letter, we discussed the credit debacle in mortgage-related fixed-income securities and the ensuing liquidity crisis in the market during July and August, which drove down the prices of our financial services companies. As we reported, we sold our Countrywide Financial position during the third quarter not because we predicted the company's share price was heading to single digits (which it did), but rather because we believed the company was no longer going to be able to grow at a double-digit rate.

During the fourth quarter we sold our Citigroup, E*Trade and Goldman Sachs positions, and cut in half our American International Group investment. As the credit crisis continued to permeate through the markets, I decided to significantly reduce our exposure to the financial services industry until I became more comfortable with the risk-reward relationship of these investments. Our probabilistic assessment of intrinsic value is largely based on a decision tree of potential outcomes. If assigning probabilities to different outcomes becomes too difficult,

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Legg Mason Growth Fund

it is often better to back away and revisit either when more information is available or prices have been reduced enough that one is being fairly compensated for the increased level of risk.

It is unusual for your portfolio manager to sell stocks that are going down. Our general disposition is to buy more shares of a company at lower prices, thus increasing our expected returns. Those of you who have invested in the Fund over the years can readily attest to this preference. Many of you have watched me buy internet businesses at lower prices, and in some cases, much lower prices. Being a contrarian can sometimes lead to superior returns. However, as Warren Buffett points out, "polling does not replace thinking."

Several months have passed since we sold our financial services holdings. As such, we are now in a much better position to evaluate these investments. Today, we have more information available to us and stock prices have come down. In some cases, prices have dropped dramatically. It is a fortuitous combination. Several financial institutions have successfully repaired their balance sheets with large cash infusions from Sovereign Wealth Funds and other institutional investors.

Today, we believe the economic landscape for financial service companies has greatly improved, both at a company-specific level and at an industry level. In addition, it is now clear the Federal Reserve Board, the administration, and Congress are deeply engaged to help prevent any further deterioration in our financial system. In short, systematic risk and company-specific risk have declined. Several months ago, information was unclear, balance sheets were stressed, risk was rising and stock prices were higher. Today, we have much more information following fourth-quarter results, balance sheets have improved, risk is declining and stock prices are lower. Higher risk and higher stock prices do not interest me. However, lower risk and lower stock prices do interest me, and I now find myself increasingly attracted to a number of financial services companies. As such, you should not be surprised to see my next letter discussing new investments in this industry.

This Fund is managed by Legg Mason Capital Management Inc.

Important Information

Rolling 12 Month Performance to End of Current Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Launch*
Russell 1000 Growth Index.	8.29%	15.79%	4.91%	-	-	-	41.47%
Legg Mason Growth Fund	**13.59%**	**0.46%**	**2.46%**	**-**	**-**	**-**	**27.75%**

*Launch Date 25.02.04

Commentary and sources for figures supplied by Legg Mason Capital Management Inc.
Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

The Legg Mason Growth Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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February 2008 Ref: 3267

Legg Mason Global Funds Plc

Batterymarch International Large Cap Fund

Market Review

The MSCI EAFE (NET) Index declined 1.75%, in US dollar terms, led down by Japan which fell 6.1%. The UK also underperformed, down 2.4%, while continental Europe managed to produce a positive return of 0.5%. Among the larger regions, Japan was highly sensitive to slowdown concerns for the global economy, the UK was warned of further write-offs and the credit crisis continued to trouble European markets. Sector returns across the regions ranged from 9.6% for telecommunication services in continental Europe to -16.0% for materials in Japan and -13.6% for UK banks.

Fund Review

The Batterymarch International Large Cap Fund underperformed its benchmark for the quarter, losing 3.64%[1] in US dollar terms, compared with a dollar loss of 1.75% for the MSCI EAFE NET Dividends Index. For the quarter, stock selection detracted from returns, particularly in Europe, where materials and industrials saw negative selection, despite added value within the banks. Selection in Japan also detracted, while selection was positive in the UK, particularly within materials. The impact of region and sector selection added value, particularly the exposure to emerging markets and underweight in Japan.

The Fund was broadly diversified across regions and sectors, with a slight overweight in continental Europe, an overweight exposure to emerging markets and an underweight in the UK and Japan. From a sector perspective, in keeping with the manager's process, the Fund was overweight in energy, telecommunication services and industrials and continued its underweight in financials ex-banks and banks. The portfolio was attractively valued compared with its benchmark, with a lower forward 12 month PE ratio and a higher two-year forward earnings growth rate.

Outlook

Looking ahead, continental Europe continued to rank attractively within the investment manager's model, although estimate revisions turned negative, driven by earnings downgrades in financials. On a valuation basis, the manager believes the region remains attractive and offers strong forward earnings growth. In Japan, the investment manager notes that despite attractive fundamentals and valuations, the growth outlook is cloudy at best.

In emerging markets, the manager believes that the backdrop of attractively valued currencies, strong foreign reserve positions, rising domestic consumption, and still relatively low interest rates, provides a supportive environment for corporate earnings. Emerging markets should continue to provide investment opportunities that respond to domestic growth drivers.

This Fund is managed by Batterymarch Financial Management

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Batterymarch International Large Cap Fund

Important Information

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MSCI EAFE Net Dividends Index	11.17%	26.34%	13.54%	20.25%	38.59%	165.74%	128.99%
International Large Cap Fund	**9.23%**	**25.48%**	**8.82%**	**15.65%**	**26.72%**	**118.60%**	**88.43%**

Performance Inception Date 12.10.01

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Large Cap Growth Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.

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February 2008 Ref: 3265

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LEGG MASON

Batterymarch International Large Cap Fund

Market Review

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Fund Review

The Batterymarch International Large Cap Fund underperformed its benchmark for the quarter, losing 3.64%[1] in US dollar terms, compared with a dollar loss of 1.75% for the MSCI EAFE NET Dividends Index. For the quarter, stock selection detracted from returns, particularly in Europe, where materials and industrials saw negative selection, despite added value within the banks. Selection in Japan also detracted, while selection was positive in the UK, particularly within materials. The impact of region and sector selection added value, particularly the exposure to emerging markets and underweight in Japan.

The Fund was broadly diversified across regions and sectors, with a slight overweight in continental Europe, an overweight exposure to emerging markets and an underweight in the UK and Japan. From a sector perspective, in keeping with the manager's process, the Fund was overweight in energy, telecommunication services and industrials and continued its underweight in financials ex-banks and banks. The portfolio was attractively valued compared with its benchmark, with a lower forward 12 month PE ratio and a higher two-year forward earnings growth rate.

Outlook

Looking ahead, continental Europe continued to rank attractively within the investment manager's model, although estimate revisions turned negative, driven by earnings downgrades in financials. On a valuation basis, the manager believes the region remains attractive and offers strong forward earnings growth. In Japan, the investment manager notes that despite attractive fundamentals and valuations, the growth outlook is cloudy at best.

In emerging markets, the manager believes that the backdrop of attractively valued currencies, strong foreign reserve positions, rising domestic consumption, and still relatively low interest rates, provides a supportive environment for corporate earnings. Emerging markets should continue to provide investment opportunities that respond to domestic growth drivers.

This Fund is managed by Batterymarch Financial Management

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Batterymarch International Large Cap Fund

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Performance Inception Date 12.10.01

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Large Cap Growth Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.

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LEGG MASON

Legg Mason Global Funds plc

Western Asset Q4 2007 Euro Fixed Income Strategies

Key Points

- European government bonds recorded strong gains over the fourth quarter, benefiting from a flight to quality.
- Investment-grade corporate bonds, high yield and emerging European markets suffered from investors' lower appetite for risk. This contributed to a difficult quarter for the manager's European fixed income strategies.
- Although the European Central Bank has maintained a preference for higher interest rates, it is likely to leave rates unchanged until the uncertainty over the impact of the financial market turmoil on the global economy subsides.

Market Review

European government bonds recorded strong gains over the fourth quarter, benefiting from a flight to quality. Meanwhile, investment-grade corporate bonds, high yield and emerging European markets underperformed the core government bond markets, suffering from investors' lower appetite for risk, with the difference in yields over government bonds (spreads) widening. The Lehman Euro Aggregate Index returned 0.8%. On a sector level, government bonds, Pfandbriefe (German mortgage bonds) and cash gained 1.0%, 1.1% and 0.9% respectively, while corporates fell 0.1%.

Problems in the US subprime mortgage market continued to affect global financial markets, with a number of large financial institutions announcing significant write-downs relating to mortgage-backed securities. Global government bond markets benefited from a flight to quality as concerns grew that these problems would impact the wider global economy. European bond markets underperformed some of the other major regions, as economic data remained reasonably healthy and expectations of eurozone interest rate cuts were therefore weakened.

The Fed and the BofE both trimmed rates over the quarter, leaving policy rates at 4.25% and 5.50% at year-end. Investors discounted further easing for 2008. (Indeed, the Fed reduced rates by a further 125 basis points in January.) Meanwhile, the European Central Bank and the Bank of Japan maintained a preference for higher rates, but left rates unchanged over the quarter in order to assess the global economic outlook. As lending activity remained strained throughout the quarter, the major central banks announced a coordinated injection of liquidity into financial markets. This had some success in providing banks with necessary funding and bringing down money market rates.

Strategy*

During the fourth quarter, the investment manager generally held duration shorter than the benchmark, making the portfolio less sensitive to interest rate changes, but sought to manage duration tactically throughout the quarter. The short duration position held in markets outside of the core eurozone detracted from performance, as the portfolios only took limited advantage of the strong market rally compared to the benchmark.

In terms of yield curve positioning, the manager favoured longer maturities over the shorter end, but then lost out as the yield curve steepened modestly on the back of an outperformance of shorter dated bonds.

Among sectors, the manager's overweight exposure to euro investment-grade corporate bonds versus the benchmark detracted from portfolio returns as the sector struggled over the quarter. Within corporate bonds, the manager also continued to hold an overweight exposure to the banks sector, but this group was particularly hit by the ongoing credit crisis. The manager remained underweight to agencies, supranational bonds and Pfandbriefe in the euro market throughout the quarter.

Outside the core euro market, the manager continued to hold a diversified exposure to Danish and US mortgages, and Norwegian and Polish government bonds. This provided mixed results, as the positions in US mortgages and Norwegian bonds added to performance, while Poland lagged core eurozone government bonds over the quarter.

*Please note not all strategies have allocations to the sub-sectors covered in this commentary. Please see relevant factsheets for individual fund allocations.

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LEGG MASON

Western Asset Q4 2007 Euro Fixed Income Strategies

In the high-yield sector, the manager's small and well-diversified exposure, with an emphasis on BB rated securities, underperformed as the higher risk sector suffered most from investors' lower appetite for risk.

In currencies, the manager favoured the US dollar relative to the euro. During the quarter, however, the dollar continued to weaken.

Outlook

Looking forward, the manager believes that longer term global growth fundamentals remain healthy. Although the global economy is likely to experience a short-term moderation in growth on the back of weakness in the US and UK economies, Continental Europe and Japan are expected to remain relatively resilient and global economic conditions are likely to improve in the latter half of 2008. Inflationary pressures seem to be reasonably contained in most major regions. While the US Federal Reserve and the Bank of England are likely to reduce interest rates to shore up their domestic economies, the European Central Bank and the Bank of Japan are likely to leave rates unchanged until the uncertainty over the impact of the financial market turmoil on the global economy subsides. The overall economic backdrop for the eurozone remains relatively robust. Some of the other central banks in Europe, such as the Riksbank, Norges Bank and Polish National Bank, remain very hawkish, due to concerns over inflation, and might continue to raise interest rates.

Corporate bond markets globally are likely to experience further volatility until the impact of the credit crisis on the financial sector becomes clearer. While financials have announced significant write-downs relating to mortgage-backed securities, the manager continues to believe that large financial institutions will ride out the current credit market volatility and offer strong longer term value.

These strategies are managed by Western Asset Management

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The strategy is representative of those employed by the Euro Fixed Income sub-funds within Legg Mason Global Funds plc (listed below).

Western Asset Euro Core Bond Fund

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LEGG MASON

Legg Mason Global Funds Plc

ClearBridge US Large Cap Growth Fund

Market Review

The fourth quarter continued the trend that was witnessed in the previous three quarters of calendar 2007. Notably, growth outperforming value (as measured by the Russell 1000 Growth Index and the Russell 1000 Value Index, respectively) and large company stocks outperforming small company stocks (as measured by the Russell 1000 Index and the Russell 2000 Index, respectively). The manager feels the market has clearly started discounting a meaningful slowdown in the global economy (and thus corporate profits) well in advance of the mass media musings that are currently being written. Periods like this usually favour self-funding, counter-cyclical industries like consumer staples, healthcare, and parts of technology.

Fund Review

The ClearBridge US Large Cap Growth Fund lost 4.92%[1] in US dollar terms during the fourth quarter, while its benchmark, the Russell 1000 Growth Index, fell by 0.77% in dollar terms.

The Fund's performance for the three month period was hurt by stock selection and, to a lesser extent, by sector allocation. Overweight positions in the consumer discretionary and financial sectors, and underweight positions in energy, materials and utilities, detracted from the Fund's relative performance. The Fund had no significant holdings in the energy, materials and utilities sectors.

An overweight position in information technology and underweight positions in industrials and telecommunications services made positive contributions. The Fund had no substantial holdings in the industrial and telecommunications services sectors. Stock selection in the healthcare, information technology and consumer staples sectors detracted from relative performance, while stock selection in consumer discretionary and financials made a positive contribution to performance.

Individual stocks that made a positive contribution to Fund performance included Nasdaq Stock Market Inc, Berkshire Hathaway Inc, Akamai Technologies Inc, Microsoft Corp. and Coca Cola Inc while stocks that detracted from performance included Amgen Inc, Genentech Inc, Merrill Lynch & Co, Vertex Pharmaceuticals Inc. and Cisco Systems Inc.

The Fund added a new position in Lehman Brothers Holdings Inc. and Harman International, and closed out positions in Pfizer Inc. and Juniper Networks Inc.

Outlook

Pundits suggest that dislocations and market uncertainty usually end with some sort of financial calamity. Everybody can agree that the most recent mortgage mess at every level of the food chain (from borrowers to investment banks), qualifies. The investment manager would argue that the aggressive write-downs and recent capital raisings close the chapter on another period of self-perpetuating indiscretion on behalf of the financial services industry. Mercifully, the manager thinks the banks have finally bracketed their respective exposure to spread products and have been realistic on asset prices going forward. The Federal Reserve will likely continue to 'come to the rescue' as long as the dislocations persist to ensure proper liquidity and functionality of the financial system.

As the consumer is approximately two-thirds of the US GDP, things to watch in the new year include: political direction (or lack thereof), unemployment, capital spending plans of corporations, export levels from emerging markets, direction of already elevated levels of input costs (metals, energy, food, etc), as well as retail sales trends.

This fund is managed by ClearBridge Advisors

[1] Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares. The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.75% in comparison to the predecessor fund of 1.37% - there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

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LEGG MASON

ClearBridge US Large Cap Growth Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Performance Inception Date
Russell 1000 Growth Index	11.81%	9.07%	5.26%	6.30%	29.75%	77.06%	4.34%
US Large Cap Growth Fund	**4.02%**	**3.44%**	**4.26%**	**-0.58%**	**46.13%**	**62.98%**	**15.88%**

Performance Inception Date 18.02.99

Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.
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LEGG MASON

Legg Mason Global Funds plc

ClearBridge US Appreciation Fund

Market Review

Throughout the past year, the investment manager has expressed more caution about financial conditions than at any time since the internet and technology bubble of 1999. Despite record employment and corporate profits, the mountain of debt that had accumulated throughout the Unites States threatened the economy from many angles: mortgage debt on overpriced homes or speculative real estate; leverage used by some hedge funds and financial institutions to try and obtain increasingly diminishing returns; packages of low-grade bonds or mortgages with little transparency; record levels of credit card debt. There seemed an inevitability of a serious unwinding, and beginning in the summer, falling home prices exposed the fault lines.

Severe economic pain is being felt, ranging from repossessed homes, all the way to major banks. There were, in effect, two distinct stock markets this past year. Energy and technology stocks led the broad market indexes higher, but financial and housing-related stocks experienced a rout. In the manager's opinion, the fact that the overall market managed a gain was due to very reasonable valuations on many stocks, in contrast to 1999, when valuations were stretched.

Fund Review

Against this backdrop, the ClearBridge US Appreciation Fund outperformed its benchmark for the fouth quarter on a relative basis, losing 1.10%[1] in dollar terms versus a dollar loss of 3.33% for the S&P 500 Index. For the full year, the Fund and the benchmark returned 7.26% and 5.49%, respectively.

Relative to the benchmark S&P 500 Index, both stock selection and, to a lesser extent, sector allocation contributed to the Fund's performance during the three month period. Underweight positions in the consumer discretionary and financial sectors and an overweight position in the information technology sector helped Fund performance, while underweight positions in utilities, health care and energy detracted from relative performance. The Fund's cash position also helped relative performance during the three month period. Stock selection in the financial and consumer discretionary sectors helped relative performance, while stock selection in the industrial, information technology and consumer staples sectors detracted from performance.

Individual stocks that contributed the most to Fund performance included Berkshire Hathaway, Microsoft Corp, Annaly Capital Management and Monsanto Co. while General Electric Co, Freddie Mac, Cisco Systems and American Express Co. all detracted from performance.

During the quarter, the Fund established new positions in a number of new names including Biogen Idec, Comcast Corp, Cablevision Systems Corp and Lehman Brothers. The Fund closed out a number of existing positions during the period, including Canadian Natural Resources, Accenture Ltd, Boeing Co and IAC/InterActiveCorp.

Outlook

The manager enters 2008 with the same caution expressed in the last few commentaries. For the stock markets to begin a major advance, it believes two things must occur.

First, the market needs a sense of when the worst of the write-offs and losses in financial instruments has been recognised. Just when it appears that the worst is out in the open, a new crisis seems to arise. The spate of capital-raising by financial institutions, plus the Fed's commitment to provide liquidity, eventually will give relief, but the process is not yet complete.

Second, the markets have to come to grips with the likelihood of a consumer-led recession, and then figure out how severe it will be. Price-earnings ratios are indeed low, especially compared to interest rates, but if the "earnings" part of the ratio deteriorates, the market will have to adjust. In the manager's experience, some of the best buying opportunities are when a recession has taken hold, and pessimism reaches very high levels. The manager does not think it is there yet, but believes it could get to that point during the spring.

Because of its underweight in financial stocks and good exposure to energy, the Fund had a year of good returns. With the Mid-East still experiencing turmoil, the manager continues to believe that North American energy stocks deserve a place in portfolios. Its other preferences in this environment are for the highest quality companies with the ability to pay a rising stream of dividends, and to withstand a fragile economy.

This Fund is managed by ClearBridge Advisors

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LEGG MASON

Legg Mason Global Funds plc

ClearBridge US Appreciation Fund

Important Information

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S&P 500 Index	5.49%	15.79%	4.91%	-	-	-	43.31%
US Appreciation Fund	**7.26%**	**13.49%**	**2.45%**	**-**	**-**	**-**	**35.96%**

*Performance Inception Date 14.05.04

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LEGG MASON

Legg Mason Global Funds plc

Western Asset Q4 2007 Global High Yield and Emerging Market Fixed Income Strategies

Key Points

- In emerging markets, external US dollar denominated bond returns were positive, despite widening spreads. Meanwhile, local currency emerging market returns were mixed.
- High yield bonds suffered most from investors' increase in risk aversion, recording negative returns in the US and Europe.
- Looking ahead, the manager believes that within external US dollar denominated emerging market debt, corporate issues offer more attractive opportunities than government bonds.
- In terms of the outlook for high yield, the manager believes that the market remains too pessimistic in its default expectations for this year compared to its own expectations.

Market Review

While global developed government bond markets recorded strong gains over the fourth quarter, the high yield and emerging market debt markets – the higher risk segments of the bond market – were affected by investors' lower appetite for risk.

Global developed government bond markets benefited from a flight to quality as concerns grew that liquidity problems would impact the wider global economy. Increased expectations for rate cuts by the US Federal Reserve (Fed) and the Bank of England (BofE) provided further support. The Fed and the BofE both trimmed rates over the quarter, leaving policy rates at 4.25% and 5.50% at year-end. Investors discounted further easing for 2008. Meanwhile, the European Central Bank and the Bank of Japan have maintained a preference for higher rates, but left rates unchanged over the quarter in order to assess the global economic outlook.

External US dollar denominated emerging market returns were 2.7% during the fourth quarter of 2007. Investors' lower appetite for risk on the back of the US subprime crisis led to weakness in the higher risk sectors of the bond market, including emerging market debt. However, the asset class still benefited from strength in the US Treasury market, as emerging market bonds are priced relative to US bonds. In local currency emerging market debt, returns were mixed due to economic strength and concerns over inflation in many countries, although investors continued to benefit from strength in emerging market currencies. On a country level, Turkey and India performed well.

High yield bonds suffered most from investors' increase in risk aversion, recording negative returns in the US and Europe. The US high yield market returned -1% and European high yield again lagged behind other regions, returning -2% over the period. Lower quality issues underperformed in this environment as investors reduced their exposure to risk.

Strategy*

Returns were mixed in local currency emerging market debt holdings, with exposure to Turkey adding value, while holdings in Brazil suffered on the back of market weakness. At the end of the period, exposure to Turkey was slightly higher than at the end of September. While exposures to Russia, Brazil and Mexico were lower compared to the end of September, they remained the largest holdings in emerging markets overall.

The high yield sector struggled over the quarter, with the European market underperforming the US. The auto sector performed particularly poorly, but recovered strongly late in the quarter.

Outlook

The investment manager believes that longer term global growth fundamentals remain healthy, and expects the US economy to grow at a moderate 1.5-2.0% pace in 2008. Inflationary pressures seem to be reasonably contained in most major regions. While the US Federal Reserve and the Bank of England are likely to reduce interest rates to shore up their domestic economies, the European Central Bank and the Bank of Japan are likely to leave rates unchanged until the uncertainty over the impact of the financial market turmoil on the global economy subsides.

The manager continues to believe that within external US dollar denominated emerging market debt, corporate issues offer more attractive opportunities than government bonds. It also believes that local currency markets offer superior value relative to external sovereign issues,

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LEGG MASON

Western Asset Q4 2007 Global High Yield and Emerging Market Fixed Income Strategies

especially as some currency appreciation is expected across most regions. With inflation remaining a threat in countries such as Russia, Malaysia, Egypt and India, central banks are likely to be forced to accept a stronger currency as part of their policy intervention.

In terms of high yield, the manager believes that the fundamentals have been strong and that, although investors expect a higher default rate this year, the market remains too pessimistic compared to its own expectations.

These strategies are managed by Western Asset Management

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Western Asset Emerging Markets Bond Fund

Western Asset Global High Yield Bond Fund

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LEGG MASON

Royce US Small Cap Opportunity Fund

Market Review

For the third consecutive quarter, large-cap companies bested their small-cap counterparts. While all major indices were in negative territory during 2007's closing quarter, large-caps enjoyed an edge, with the S&P 500 and Nasdaq Composite down 3.3% and 1.8%, respectively, versus a loss of 4.6% for the Russell 2000 Index. For the full year, the news was much the same as the S&P 500 gained 5.5%, while the Russell 2000 declined 1.6%. The Nasdaq Composite was even better, up 9.8% for the year.

Within small-cap, growth completed a quarterly clean sweep in 2007. The Russell 2000 Growth Index outperformed during the fourth quarter (declining 2.1% versus the Russell 2000 Value index's loss of 7.3%) as it did in each of the other quarters in 2007. For the calendar year, the Russell 2000 Growth Index was up 7.1% versus a 9.8% decline for the Russell 2000 Value Index. While one-, three- and five-year average annual total returns ending 31/12/07 favoured the small-cap growth index, the 10-, 15-, 20- and 25-year trailing results were led by the small-cap value index.

Micro-caps concluded a difficult year by finishing in negative territory for the fourth quarter and full year. The Russell 2000 Microcap Index also lagged the Russell 2000 for the three- and five-year periods ended December 31, 2007.

Fund Review

The Royce US Small Cap Opportunity Fund struggled through a tough quarter for smaller companies. The Fund lost 7.95%[1] for the fourth quarter in US dollar terms versus -4.58% for its benchmark, the Russell 2000 Index. For the full year, the Fund also underperformed, losing 4.61% versus a loss of 1.57% for the Russell 2000 Index. However, since inception in November 2002, the Fund has outperformed the Russell 2000 Index by 52.14%.

The difficulties of the fourth quarter were reflected in the Fund's sector results. Of the Fund's ten sectors only two, healthcare and natural resources were positive contributors to performance. The industrial products sector was the worst performing sector for the quarter, highlighted by the machinery, and the specialty chemicals and materials industries. Year-to-date, six of the Fund's ten equity sectors finished the year with net losses on a dollar basis, the remaining four that were in the black all saw their net gain recede in the second half of the year. Interestingly, for the calendar year, the industrial products and technology sectors significantly contributed to the performance of the Fund on a net dollar basis, while the next best performing sector, natural resources, was a distant third. The industrial components, and metals fabrication and distribution industries posted the largest net gains on a dollar basis within the industrial products sector.

Outlook

We believe that low returns for equities will persist, that larger stocks should do better, that higher quality will drive results and that the spread between large- and small-cap returns will be much narrower than investors may be anticipating.

This Fund is managed by Royce & Associates, LLC

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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LEGG MASON

Legg Mason Global Funds plc

Royce US Small Cap Opportunity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Launch*
Russell 2000 Index	-1.57%	18.37%	4.55%	18.33%	47.25%	112.26%	115.10%
Royce US Small Cap Opportunity Fund	**-4.61%**	**17.89%**	**3.50%**	**16.52%**	**83.43%**	**149.41%**	**167.24%**

*Launch 08.11.02

Commentary and sources for figures supplied by: Royce & Associates, LLC
Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

The Royce US Small Cap Opportunity Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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This Fund may acquire shares in companies with relatively small market capitalisations and may involve a higher degree of risk.

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. Before investing you should carefully read the Prospectus.

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January 2008

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LEGG MASON

Legg Mason Global Funds Plc

Batterymarch Pacific Equity Fund

Market Review

The return for the MSCI All country Asia ex-Japan Index was 0.83% in US dollar terms for the three months under review, outperforming global markets. India led the gainers, up an impressive 23.3%. The region's other super power, China, didn't fare as well, posting a small decline of 3.4%, while Taiwan underperformed significantly, losing 7.8%, the worst performing market within the index, all in US dollars. South Korea also declined during the period, down 4.6%. Given the recent global volatility, volatility of Asian markets was markedly lower than in the correction of February and March, while that of developed markets was higher, highlighting the sound fundamentals of Asian economies and markets.

Fund Review

The Batterymarch Pacific Equity Fund outperformed the benchmark in the period, returning 2.66%[1] compared to 0.83% for the MSCI All Country Asia ex-Japan Index, both in US dollars. Positive stock selection accounted for the lion's share of value added in the period, most notably in India and South Korea. Country allocation decisions also benefited the portfolio, particularly the overweight in India and underweights in China and Taiwan. The underweight to Malaysia and overweight to South Korea detracted from returns. From an industry perspective, capital goods, semiconductors and energy were the most significant contributors for the Fund.

At year-end, the Fund was attractively valued compared with the benchmark, with a lower two-year forward P/E of 14.8x compared with 15.6x and a higher two-year forward earnings growth rate, 24.7% compared with 16.4%.

Outlook

Looking ahead, the manager believes Asia ex-Japan continues to offer one of the world's most compelling investment opportunities for long-term investors. The fundamentals in Asia remain strong, with GDP growth exceeding 6%, sizable trade surpluses, growing domestic consumption and gradually appreciating currencies. These trends support continued strength in corporate earnings and optimism for Asian share prices.

Asian economies are developing important internal sources of growth, gradually reducing their dependence on the US and Europe. The manager expects this trend to continue, as surpluses add to domestic investment and domestic consumption gathers steam. In the short term, however, the manager is wary of slowing growth in the US and a reduction in global risk appetite.

The US remains one of the largest markets for Asian exports, and exports still account for more than a third of GDP for China, Taiwan and Korea. With 2008 an election year in the US, the manager would expect the Federal Reserve to take meaningful steps to try to lessen the effects of an economic slowdown, which should help the US economy muddle through rather than see a prolonged recession. Stock prices, however, are in the process of adjusting to a less favourable growth scenario, which may continue to pressure Asian shares in the short term.

This Fund is managed by Batterymarch Financial Management, Inc.

[1]Performance Figure Source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees for A class shares.

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LEGG MASON

Batterymarch Pacific Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Launch*
MSCI AC Asia ex Japan	40.52%	33.74%	23.17%	-	-	-	152.70%
Batterymarch Pacific Equity Fund	**49.73%**	**33.21%**	**34.56%**	**-**	**-**	**-**	**165.89%**

*Launch 25.02.04

Commentary and sources for figures supplied by: Batterymarch Financial Management, Inc.
Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees for A class shares.

The Batterymarch Pacific Equity Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised, in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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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. Before investing you should carefully read the Prospectus.

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January 2008

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LEGG MASON

Legg Mason Global Funds plc

ClearBridge US Aggressive Growth Fund

Market Review

The fourth quarter of 2007 began with a continuation of the third quarter rally, with key indexes reaching all-time or multi-year highs by early October. Shortly afterwards, however, the markets reversed course, with an approximately 10% sell-off during the next six weeks. Despite some recovery, the major indices finished the quarter down single digits, with the Dow Jones Industrial Average and S&P 500 Index recording their worst quarterly performance since the third quarter of 2002.

The pervasive theme for 2007 in the markets was volatility. While most indices were up in 2007, there were at least three major corrections. The market bottomed first in March and tested those lows in August and November. In each case, the selling was driven by worsening conditions in the subprime mortgage markets and its impact on the global credit markets. By the end of the year, many of the largest US financial institutions were forced to raise capital in order to shore up their balance sheets.

Fund Review

Against this backdrop, the ClearBridge US Aggressive Growth Fund underperformed for the period, declining 4.56%[1] in US dollar terms versus a dollar loss of 0.88% for its benchmark, the Russell 3000 Growth Index.

The Fund's performance for the three month period was negatively impacted both by stock selection and, to a lesser extent, by sector allocation. Overweight positions in the consumer discretionary and financial sectors, and underweight positions in the information technology, consumer staples, materials and utilities sectors detracted from performance during the quarter. The Fund had no substantial holdings in consumer staples, materials and utilities.

Overweight positions in energy and health care, and underweight positions in industrials and telecommunications services made a positive contribution to relative Fund performance. The Fund had no substantial holdings in the telecommunications sector during the three-month period. Stock selection in the information technology, consumer discretionary and financial sectors detracted from Fund performance, while selection in the energy, health care and industrial sectors enhanced Fund performance relative to the benchmark.

Individual stocks that made a positive contribution to the Fund's relative performance included Anadarko Petroleum Corp, UnitedHealth Group Inc, Genzyme Corp, Lehman Brothers Holdings Inc. and Millenium Pharmaceuticals Inc. Stocks that detracted from Fund performance included Cablevision Systems Corp, Comcast Corp, SanDisk Corp, Merrill Lynch & Co. and Amgen Inc.

During the period, the Fund established a new position in Arris Group Inc and closed its positions in C.Cor.Net Corp. and Viacell Inc.

Market Outlook

The investment manager's 2008 outlook focuses on psychology, monetary conditions and valuation. The manager reminds investors that the stock market tends to bottom on fear and pessimism and normally peaks on euphoria and greed. Clearly, it feels we are much closer to the former. The financial stress of 2007 has helped create a much more accommodative Federal Reserve Board, which has cut the Fed Funds rate by 2.25% since the summer and continues to inject reserves into the system to maintain liquidity. On a broad market basis, valuations remain attractive. Given strong cash balances for many corporations, the manager expects merger and acquisition (M&A) activity to remain robust.

The success or failure of the Fund will be determined by the ability of its companies to grow earnings and cash flows over a sustained period of time while smartly allocating capital. The manager feels that conditions are in place for the broad market to advance from the levels at which it closed at the end of 2007.

This Fund is managed by ClearBridge Advisors

[1] Class A Distribution. US Dollar Shares.
Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees.

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LEGG MASON

ClearBridge US Aggressive Growth Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Performance Inception
Russell 3000 Growth Index	11.40%	9.46%	5.17%	6.93%	30.97%	79.59%	-13.04%
ClearBridge US Aggressive Growth Fund[2]	**0.13%**	**9.56%**	**10.96%**	**10.22%**	**35.55%**	**81.86%**	**36.58%**

Performance Inception Date 25.05.00

Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.
Performance shown includes periods prior to the Fund's inception date, reflecting performance of a predecessor fund (the Salomon Brothers Global Horizons U.S. Aggressive Growth Fund) with a substantially similar investment objective and policy and whose assets were transferred into this Fund on 20 April 2007. Please refer below for more information.[2]

The ClearBridge US Aggressive Growth Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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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.

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[2] The performance is for Class A Distribution Shares and prior to the Fund's inception date includes that of Class A Accumulation Shares of the predecessor fund. The performance data should be used for illustrative purposes only as performance prior to the inception date has not been adjusted to reflect the higher fees of the Fund. As at 20 April 2007, the Fund's fixed annual expenses for Class A Shares (investment management fees, custody and administration fees and shareholder servicing fees) were around 1.75% in comparison to the predecessor fund of 1.37% - there may be other variable costs not included in these figures. This means that the performance of the predecessor fund would have been lower had its expenses equalled those of the Fund. Please note that the Fund's TER is subject to change.

January 2008

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LEGG MASON

Legg Mason Global Funds plc

Western Asset Diversified Strategic Income Bond Fund

Key Points

- The Fund posted a return of -0.83%[1] in US dollar terms over the fourth quarter. However, it lagged its benchmark, which gained 0.92% over the period.
- The Fund's exposures to high yield and subordinated financials detracted from performance. Meanwhile, the exposure to mortgage-backed securities and to non-dollar currencies proved beneficial to returns.
- Looking ahead, the manager continues to see value in mortgage-backed securities, lower-quality corporate debt and European subordinated bank issues.

Market Review

Global developed government bond markets recorded strong gains over the fourth quarter, benefiting from a flight to quality as concerns grew that liquidity problems would impact the wider global economy. Increased expectations for rate cuts by the US Federal Reserve (Fed) and the Bank of England (BofE) provided further support. The Fed and the BofE both trimmed rates over the quarter, leaving policy rates at 4.25% and 5.50% at year-end. Investors discounted further easing for 2008. Meanwhile, the European Central Bank and the Bank of Japan have maintained a preference for higher rates, but left rates unchanged over the quarter in order to assess the global economic outlook. Against this backdrop, the US and UK markets outperformed the euro and Japanese bond markets.

Mortgages/TIPS

Mortgage-backed security returns were 3.1% in the fourth quarter. The asset class underperformed equivalent duration US Treasuries, with weakness relative to conventional bonds concentrated at shorter maturities. US Treasury Inflation-Protected Securities (TIPS) outperformed US Treasuries, returning 5%. Inflation expectations (as measured by break-even spreads) remained broadly unchanged, except in the five-year area, where they rose. Investors' less favourable economic outlook and expectations for lower interest rates drove returns over the period.

Investment grade

Investment grade corporate bonds returned 1.9% during the period, significantly underperforming government bonds. Investors' lower appetite for risk led the asset class to weaken relative to Treasuries. In the European corporate market, subordinated financial debt, which has a lower priority to other forms of debt in case of a default, continued to struggle. The asset class declined by 1.7% over the period, due to ongoing concerns about potential losses from the impact of subprime exposure and subsequent funding difficulties.

High yield

The US high yield market returned -1%, underperforming other major fixed income markets on the back of the widespread increase in risk aversion. European high yield again lagged behind other regions, returning -2% over the period. Lower quality issues underperformed in this environment as investors reduced their exposure to risk.

Foreign government bonds

Peripheral markets continued to lag core markets, and the US dollar was again generally weaker against most currencies, except sterling, as investors revised down their outlook for US growth and interest rates.

Fund Review

The Western Asset Diversified Strategic Income Bond Fund posted a return of -0.83%[1] in US dollars over the fourth quarter, lagging its benchmark, the Citigroup 1 Month US Treasury Bill Index, which rose by 0.92% over the same period. The Fund also underperformed its sector, the Morningstar Offshore Fixed Income Global USD Based, which returned 2.20%[2].

The Fund's exposures to high yield and subordinated financials detracted from performance. Meanwhile, the exposure to mortgage-backed securities proved beneficial to returns, although duration hedges detracted from performance as spreads widened. The Fund's exposure to non-dollar currencies also added value, as the dollar continued to weaken.

[1] Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

[2] Source for Morningstar Sector – Copyright – © 2007, Morningstar, Inc. All Rights Reserved. For more information, visit www.funds.morningstar.com.

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LEGG MASON

Western Asset Diversified Strategic Income Bond Fund

Portfolio activity

The manager took advantage of weakness in financials to add to the sector, increasing the Fund's overall exposure to investment grade corporate bonds to 15%. The Fund's high yield exposure was also increased slightly to 31%. Meanwhile, exposure to mortgage-backed securities remained broadly unchanged at around 40% of the Fund. The manager reduced exposure to TIPS, however, following strong gains. In terms of currencies, the manager slightly reduced exposure to the yen to 5%, following strong gains.

Outlook

Mortgages

The Fund maintains an overweight exposure to mortgage backed-securities as it believes they remain very attractively priced and volatility should gradually decline. The manager aims to hold exposure at around 40%.

Investment grade corporates

The manager thinks that valuations are now more attractive in investment grade bonds. It currently holds around 15% in the asset class and has a focus on European subordinated financials. Despite announcements of writedowns, businesses remain diversified and fundamentally strong. In addition, an increased focus on risk management and the willingness to strengthen balance sheets suggest a more attractive longer term valuation outlook for financial issuers when compared to industrial issuers.

High yield bonds

The manager remains overweight in high yield. It believes that the fundamentals have been strong and that, although investors expect a higher default rate this year, the market remains too pessimistic compared to its own expectations. The manager aims to have an allocation around the 25 to 35% area with an allocation to European issues, and would look to increase this allocation further should valuations improve.

Government bonds

The manager is looking to maintain an extended duration position in the portfolio that would benefit performance in the case of weaker-than-expected economic developments. The manager holds a bias to US duration and shorter duration in Europe. In terms of currencies, it continues to hold an allocation to the Japanese yen as a hedge against risk aversion and maintains a focus on higher yielding currencies at the expense of the US dollar.

Summary

The investment manager believes that longer term global growth fundamentals remain healthy, and expects the US economy to grow at a moderate 1.5-2.0% pace in 2008. Inflationary pressures seem to be reasonably contained in most major regions. While the US Federal Reserve and the Bank of England are likely to reduce interest rates to shore up their domestic economies, the European Central Bank and the Bank of Japan are likely to leave rates unchanged until the uncertainty over the impact of the financial market turmoil on the global economy subsides. Against this backdrop, the manager sees value in mortgage-backed securities, lower-quality corporate debt and European subordinated bank issues.

This Fund is managed by Western Asset Management

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LEGG MASON

Western Asset Diversified Strategic Income Bond Fund

Important Information

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Citigroup 1 Month US Treasury Bill Index	4.56%	4.75%	2.93%	-	-	-	13.94%
Western Asset Diversified Strategic Income Bond Fund	**1.32%**	**5.36%**	**2.44%**	**-**	**-**	**-**	**13.71%**

*Launch 27.02.04

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares

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February 2008 Ref: 3224

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LEGG MASON

Legg Mason Global Funds plc

Western Asset Global Multi Strategy Fund

Key Points

- The Fund posted a positive return of 0.90%[1] in US dollar terms over the fourth quarter. However, it lagged its composite benchmark, which rose by 2.03% over the period.
- The Fund's exposures to high yield and European financials were the main detractors from performance. Meanwhile, the Fund's exposure to TIPS, mortgage-backed securities and US Treasuries proved beneficial to returns.
- Looking ahead, the manager continues to see value in mortgage-backed securities, lower-quality corporate debt and European subordinated bank issues.

Market Review

Global developed government bond markets recorded strong gains over the fourth quarter, benefiting from a flight to quality as concerns grew that liquidity problems would impact the wider global economy. Increased expectations for rate cuts by the US Federal Reserve (Fed) and the Bank of England (BofE) provided further support. The Fed and the BofE both trimmed rates over the quarter, leaving policy rates at 4.25% and 5.50% at year-end. Investors discounted further easing for 2008. Meanwhile, the European Central Bank and the Bank of Japan have maintained a preference for higher rates, but left rates unchanged over the quarter in order to assess the global economic outlook. Against this backdrop, the US and UK markets outperformed the euro and Japanese bond markets.

Emerging market bonds

External emerging market returns were 2.7% during the fourth quarter of 2007. Investors' lower appetite for risk on the back of the US subprime crisis led to weakness in the higher risk sectors of the bond market, including emerging market debt. However, the asset class still benefited from strength in the US Treasury market, as emerging market bonds are priced relative to US bonds. In local markets, returns were mixed due to economic strength and concerns over inflation in many countries, although investors continued to benefit from strength in emerging market currencies. On a country level, Turkey and India performed well.

Mortgages/TIPS

Mortgage-backed security returns were 3.1% in the fourth quarter. The asset class underperformed equivalent duration US Treasuries, with weakness relative to conventional bonds concentrated at shorter maturities. US Treasury Inflation-Protected Securities (TIPS) outperformed US Treasuries, returning 5%. Inflation expectations (as measured by break-even spreads) remained broadly unchanged, except in the five-year area, where they rose. Investors' less favourable economic outlook and expectations for lower interest rates drove returns over the period.

Investment grade

Investment grade corporate bonds returned 1.9% during the period, significantly underperforming government bonds. Investors' lower appetite for risk led the asset class to weaken relative to Treasuries. In the European corporate market, subordinated financial debt, which has a lower priority to other forms of debt in case of a default, continued to struggle. The asset class declined by 1.7% over the period, due to ongoing concerns about potential losses from the impact of subprime exposure and subsequent funding difficulties.

High yield

The US high yield market returned -1%, underperforming other major fixed income markets on the back of the widespread increase in risk aversion. European high yield again lagged behind other regions, returning -2% over the period. Lower quality issues underperformed in this environment as investors reduced their exposure to risk.

Foreign government bonds

Peripheral markets continued to lag core markets, and the US dollar was again generally weaker against most currencies, except sterling, as investors revised down their outlook for US growth and interest rates.

[1] Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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LEGG MASON

Western Asset Global Multi Strategy Fund

Fund Review

The Western Asset Global Multi Strategy Fund posted a positive return of 0.90%[1] in US dollars over the fourth quarter, lagging its composite benchmark, which rose by 2.03% over the same period. The composite benchmark comprises the Lehman Global Aggregate Index (50%), the Lehman High Yield 2% Issuer Capped Index (25%), and the JP Morgan Emerging Markets Bond+ Index (25%). The Fund also underperformed its sector, the Morningstar Offshore Fixed Income Global USD Based, which returned 2.20%[2].

During the quarter, the Fund's exposure to TIPS, mortgage-backed securities and US Treasuries proved beneficial to returns. However, the exposure to local emerging market bonds and peripheral markets at the expense of external emerging market debt detracted from performance slightly. The Fund's exposures to high yield and European financials were the main detractors from performance. Currency exposure had a mixed impact. While the yen and emerging market currencies strengthened, the Fund's underweight exposure to the euro had a negative impact on performance.

Portfolio activity

In emerging markets, the manager increased the Fund's exposure to Egypt, Mexico and Russia and slightly reduced its allocation to Hungary and Turkey. The Fund's local emerging market exposure remains around 13% with a further 12% allocated to US dollar denominated external markets, including some emerging market corporate bonds. Elsewhere, the manager took advantage of weakness in financials to add to the sector, increasing the Fund's overall exposure to investment grade corporate bonds to 16%. The Fund's high yield exposure was also increased slightly through investments in the European market. Meanwhile, exposure to mortgage-backed securities remained broadly unchanged at around 17% of the Fund. The manager reduced exposure to shorter-dated TIPS, following strong gains. The Fund's overall exposure to TIPS stands at 2%. In terms of currencies, the manager increased exposure to the US dollar and reduced exposure to the euro. In emerging market currencies, the manager increased exposure to the Turkish lira, Russian ruble, Indonesian rupiah and the Egyptian pound.

Outlook

Emerging markets

The manager continues to believe that within external US dollar denominated debt, corporate issues offer more attractive opportunities than government bonds. It also believes that local currency markets offer superior value relative to external sovereign issues, especially as some currency appreciation is expected across most regions. With inflation remaining a threat in countries such as Russia, Malaysia, Egypt and India, central banks are likely to be forced to accept a stronger currency as part of their policy intervention. More generally, the manager is maintaining an emerging markets exposure of around 20 to 30%, including around 10 to 15% in local currency assets.

Mortgages/TIPS

The Fund maintains an overweight exposure to mortgage backed-securities as it believes they remain very attractively priced and volatility should gradually decline. The manager aims to hold exposure at around 15-20%. With inflation expectations (as measured by break-even spreads) remaining above 2%, the manager also continues to maintain an allocation to US TIPS as a hedge against increasing inflation expectations.

Investment grade corporates

The manager thinks that valuations are now more attractive in investment grade bonds. It currently holds around 16% in the asset class and has a focus on European subordinated financials. Despite announcements of writedowns, businesses remain diversified and fundamentally strong. In addition, an increased focus on risk management and the willingness to strengthen balance sheets suggest a more attractive longer term valuation outlook for financial issuers when compared to industrial issuers.

High yield bonds

The manager remains overweight in high yield. It believes that the fundamentals have been strong and that, although investors expect a higher default rate this year, the market remains too pessimistic compared to its own expectations. The manager aims to have an allocation around the 25 to 35% area with an allocation to European issues, and would look to increase this allocation further should valuations improve.

[1] Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

[2] Source for Morningstar Sector – Copyright – © 2007, Morningstar, Inc. All Rights Reserved. For more information, visit www.funds.morningstar.com.

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LEGG MASON

Western Asset Global Multi Strategy Fund

Government bonds

The manager is looking to maintain an extended duration position in the portfolio that would benefit performance in the case of weaker-than-expected economic developments. The manager holds a bias to US duration and shorter duration in Europe. It also continues to favour exposure to some of the higher-yielding peripheral markets, such as Hungary and Israel.

Summary

The investment manager believes that longer term global growth fundamentals remain healthy, and expects the US economy to grow at a moderate 1.5-2.0% pace in 2008. Inflationary pressures seem to be reasonably contained in most major regions. While the US Federal Reserve and the Bank of England are likely to reduce interest rates to shore up their domestic economies, the European Central Bank and the Bank of Japan are likely to leave rates unchanged until the uncertainty over the impact of the financial market turmoil on the global economy subsides. Against this backdrop, the manager sees value in mortgage-backed securities, lower-quality corporate debt and European subordinated bank issues.

This Fund is managed by Western Asset Management

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Launch*
50% Leh Glb Agg; 25% Leh HY; 25% JPM EMBI+	6.94%	8.66%	1.28%	10.41%	20.53%	56.62%	66.95%
Western Asset Global Multi Strategy Fund	**6.09%**	**6.25%**	**2.24%**	**11.95%**	**21.52%**	**56.79%**	**68.45%**

*Launch 30.08.02

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

The Western Asset Global Multi Strategy Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund with segregated liability between sub-funds, established as an open-ended investment company with variable capital and incorporated with limited liability under the laws of Ireland with registered number 278601. It qualifies, and is authorised, in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA.

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LEGG MASON

Legg Mason Global Funds

Royce 100 Equity Fund

Market Review

For the fourth quarter of 2007, US equities struggled as the S&P 500 lost 3.33% in US dollar terms. Ongoing concerns over the impact on economic growth of a banking credit crunch and US housing market, as well as a weak dollar and high oil prices weighed heavily on investor sentiment.

The Federal Reserve Board (Fed) acted with liquidity support in credit markets, and interest rate cuts of 25 basis points in October and December which brought rates down to 4.25%. Some observers had expected the Fed to act more aggressively in December, but the rate cuts helped to keep opinions divided on whether or not the economy would slip into recession in 2008.

For the third consecutive quarter, large-cap companies outpaced their small-cap counterparts, albeit on a relative basis. Indeed, the S&P 500 lost 3.33% versus a loss of 4.58% for the Russell 2000. The Nasdaq Composite also performed strongly, losing 1.62%. For the year as a whole, results clearly favoured large-cap with the Nasdaq and S&P 500 up 10.65% and 5.49%, respectively, versus a loss of 1.56% for the Russell 2000.

Fund Review

The Royce 100 Equity Fund lost 7.16% in US dollar terms for the three months ended 31 December, 2007 versus a benchmark loss of 4.58% for the Russell 2000 Index, again in US dollar terms. For the year ended December 31st, the Royce 100 Equity Fund outperformed its benchmark by 632 basis points, gaining 4.75% versus a loss of 1.57% for its benchmark, the Russell 2000 Index.

During the period, the Fund's precious metals exposure was slightly weaker. Its underweight exposure to the healthcare sector detracted from returns as the sector performed strongly. However, its underweight to the financials sector contributed positively to performance as the credit crisis continued to pressure the sector.

Outlook

Looking forward, the investment manager sees further declines in the small-cap market – indeed, a drop of 20% or more in the Russell 2000's July peak would not surprise it – but it believes the worst is behind us. The most depressed areas of the stock market, such as financial and consumer stocks, have already been hit very hard, and the manager does not think that any subsequent price erosion will be as acute as many companies in these areas have already endured.

At the same time, the manager believes that declines, corrections and the occasional bear market are part of the price of doing business in the stock market, especially if one is in it for the long haul as it is, having been established in 1972. And these are precisely the times when it seeks out risk because so many others are avoiding it.

In terms of the impact of the credit crunch on the economy and the stock market, the manager thinks that, as with share price declines, most of the damage has already been done. That's not to say that the credit crunch will stop affecting stocks or the economy, but rather that most of the larger institutions have been working on solutions. Indeed, many of the same institutions that were very cavalier about risk prior to last summer are now behaving much more cautiously, owing to the subprime implosion, the credit crunch and looming anxiety over the possibility of a recession in the US.

In the event of a recession in the US, that manager thinks that ultimately the economy will soften to the point of a fairly benign recession, and by the time that happens the market will be looking forward to an economic recovery. On an absolute basis it thinks that smaller companies will be fine during such a scenario.

This Fund is managed by Royce & Associates, LLC

Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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LEGG MASON

Royce 100 Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Launch*
Russell 2000	-1.57%	18.37%	4.55%	-	-	-	34.80%
Royce 100 Equity Fund	**4.75%**	**12.96%**	**13.30%**	**-**	**-**	**-**	**61.72%**

* Launch 01.03.04

Commentary and sources for figures supplied by: Royce & Associates LLC

Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Legg Mason Global Funds plc

Brandywine Global Opportunities Bond Fund

Key Points

- The Brandywine Global Opportunities Fund increased by 2.29% in US dollar terms over the fourth quarter. Its benchmark, the Citigroup World Government Bond Index, increased by 3.92%, and its sector, the Morningstar Fixed Income Global USD Based, rose by 2.20%.
- The portfolio's duration exposure to the US added value, as the government bond market rallied sharply. However, its exposure to US corporate bonds (credit) detracted from performance, as the credit market struggled.
- In currencies, the large overweight position in the Polish zloty added value. Meanwhile, its underweight positions in the euro and the Japanese yen continued to have a negative impact on performance.

The Sound of One Hand Clapping

January marks the arrival of the forecasting season; a time when the year-in-review overlaps with the outlook for the year ahead, casting intense light on all the subtle and not-so-subtle decisions that come together to form your portfolio. Needless to say, this is a particularly relevant exercise because we are not benchmark-driven but instead have an internally focused investment team whose broad mission is to exploit overvalued and undervalued opportunities in the global arena through sound macroeconomic analysis.

In our role as raconteurs of the global macro landscape, we find ourselves well attuned to the record of the US Federal Reserve and, over time, one of the most reliable formulas for making money in the financial markets has been the old Wall Street adage, "Don't fight the Fed". It is our observation that Alan Greenspan was dubbed "The Maestro" for good reason, as he took this saying very seriously! When a crisis developed, he preemptively moved Fed Funds and injected liquidity into the banking system to stave off the long term consequences of asset deflation on the economic system. For two decades, he was so successful at executing this strategy that the behavior of the Fed in times of stress came to be characterized by "the Greenspan put".

We have a new Fed chairman now, and up until this past summer, other than taking Fed Funds to 5.25% in June 2006 to make the point that he was an inflation fighter, he has spent most of his time focused on increasing the transparency of the central bank. But it's "show time" now, with the crisis in the mortgage market having placed the Fed front-and-center in developing a response that balances the trade-off between moral hazard (i.e. bailing out irresponsible lenders) and its role as lender of last resort (i.e. reliquifying the financial system). As we mentioned in our last letter, the mortgage meltdown is the biggest crisis in our many years on the Street and we believe Ben Bernanke's response will define his legacy.

The financial writers have chronicled the events leading up to the crisis, discussing at length many of the issues, including subprime and Alt-A mortgages, pricing models, market illiquidity, housing deflation and, of course, the write-offs. However, there remains limited clarity as to why the plumbing in the banking system is so clogged and why the Fed has been so slow to develop a game plan that the market can lend credence to.

The first responses to the crisis represented "Classic Fed" in both actions and statements. They cut the Fed Funds rate and also reduced the spread between Fed Funds and the discount rate to encourage institutions in need of liquidity to use the discount window. Almost as if on cue, the markets paid heed to the time-honoured adage and elected not to engage in a fight against the Fed. Unfortunately, limited borrowing took place at the discount window because of the stigma attached to it and, as time wore on, it became apparent that this staid response was ineffective in the face of an illiquidity crisis proving both peculiar and persistent.

The real issue is that for the past 25 years the banks have been moving away from the practice of lending money to worthy borrowers and holding the loans on their balance sheets and toward a fee-based model of underwriting and securitization. This structured product model was developed by Salomon Brothers in the early 1980s as a way to move mortgage product and eventually developed into the securitization of credit cards, auto loans, and so on. To place the enormity of the problem into perspective, one need only know that the mortgage market alone is $14 trillion in size. It is the largest bond market in the world – almost three times larger than the US government bond market. The problem is that seemingly overnight this well developed business model channeling originated mortgages into structured product was shut down, and financial institutions were forced to revert back to the days of old when mortgages needed to either be placed on bank balance sheets or sold to the government-sponsored entities (i.e. Fannie Mae and Freddie Mac). This is obviously not a novel approach to banking, but time is desperately needed to implement a structural shift to a new business model. Just in the past four months, to fund the unprecedented asset growth involved with bringing mortgages, structured investment vehicles (SIVs) and bridge loans onto their balance sheets, banks have issued an unprecedented $400 billion in certificates of deposit (CDs)!

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LEGG MASON

With the patient still in the operating room, in October the Fed begrudgingly reduced both the Fed Funds and discount rate, with accompanying "Fed speak" indicating that with the move, its policy should once again be regarded as balanced to the risks of inflation and economic contraction. This was followed by a number of well orchestrated speeches from the regional Fed governors that dwelt on inflation fears in combination with a degree of tolerance for weak economic performance. We were stunned, and at the time felt the Fed made a serious policy mistake. The markets appeared to agree and the little bit of good news that was making its way into the market was completely reversed. Unfortunately, the credit crisis and the accompanying blockage in the plumbing of the banking system was left unaddressed.

Applause Waits On Success

In December, the Fed finally got it right, but they deserve a grade of "F" in communication skills. Bernanke dogmatically responded to the deterioration in the economy with a 25 basis point (bp) reduction in Fed Funds, but the market (and us) wanted them to address the real issue of stress in the banking system. A day later they would do so in announcing the establishment of a Term Auction Facility (TAF). While this is what we had been waiting for, the Fed had saved what could well prove the most important policy decision in Bernanke's career for the next day, rendering the coordinated international attack on the constrained inner workings of the financial system an afterthought and breaking the back of a tenuous market.

We believe the TAFs have, and will continue to, bring a significant measure of relief to the beleaguered market for interbank lending. The banks can now put up mortgages as collateral and the Fed will lend them money. The TAF loans are designed to strike at the heart of the problem by adding liquidity to the banking system with the goal of bringing the spread between Fed Funds and the London Interbank Offered Rate (LIBOR) back to normal. This is extraordinarily important because trillions of dollars of securities are priced off of LIBOR. Over the past six months, Treasury yields have fallen by an astounding 100bps to 200bps; unfortunately, the private sector, which desperately needs lower rates, has seen its borrowing costs rise. As intended, LIBOR has come down, and this will go a long way toward relieving some of the pressure in the private sector. Also, the Fed's aggressive and targeted move has the potential to serve as a much needed tonic for housing. Since the announcement of the programme in December, 30-year mortgage rates have fallen from 6.25% to under 5.75%, potentially bringing a sorely needed source of relief for homeowners and would-be buyers. In our view, the Fed is finally on the right track and, we believe, finally deserving of commendation. Perhaps they now need to take some kind of Hippocratic Oath which states, "first do no harm".

We have been surprised at how long it took the Fed to address the breakdown in financial intermediation. The unique nature of the crisis and the time lag in formulating the proper, laser-like response has allowed volatility to reign supreme since mid-year. We have experienced a number of second and third stage credit meltdowns and false recoveries in the second half of 2007, and we have also had to contend with currency movements of 10% or more in both directions over a few short months. The drama and angst has been led by the action (or inaction) of the Fed discussed above and has been overlaid by a US recession capitulation theme that periodically weaves itself into and out of the market psyche. What is so disheartening is that the Fed, with 12,000 employees whose task is to oversee the workings of the banking system, by our estimates, single-handedly increased the odds of a recession from 20% in the summer to over 60% today because they took six months to address the crisis. Fortunately, the mammoth monetary operations, conducted in late December, by the major central banks have largely worked in reducing the short term cost of debt capital as measured by LIBOR and brought relief in the form of lower mortgage rates as well.

A Standing Ovation for Trade Flows

The underlying tenet of our almost two-year running economic forecast was that the bust in the housing sector would be offset by the enduring renaissance in US manufacturing and trade. Interestingly, this growth phenomenon has been building for the past 30 months, but like many forms of analysis, the visibility of a trend takes time to develop, and it is now clearly evident in examining what is happening to the US trade deficit. Looking at growth differentials using a 12-month moving average, US exports are now growing roughly three times as fast as US imports (14% year-over-year vs. 4%). This running 11% per year improvement in trade flows is slowly rebalancing the deficit. We believe this is sustainable for two reasons. First, the ongoing housing turmoil almost guarantees a deceleration in the US consumer's appetite for goods, and second, the undervaluation of the dollar amid the ongoing boom in the emerging markets should continue to boost the demand for goods produced in the US.

Over the years, you have heard us use the term, "the natural order of things". The seven year bull market in the dollar from 1995 to 2002 played out under the background music of the US being the primary engine of world growth. This became particularly obvious when the strong dollar caused cheap foreign goods to flood onto our shores in the midst of the tech mania from countries wounded by the Asian crisis. The US consumer was the key catalyst in the global healing story. As the world economy regained its footing, the extreme overvaluation in the dollar began to unwind. In fact, we believe the 35% decline in the trade-weighted dollar from its peak in the spring of 2002 has been a blessing in disguise. The natural order of currency rebalancing has been stealth-like in its execution, but the dollar is now more fairly valued and the manufacturing sector is operating on a more level playing field. Why else would foreign direct investment in the manufacturing sector soar by 16% last year?

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LEGG MASON

Brandywine Global Opportunities Bond Fund

All the World's a Stage

Our analysis of purchasing power parity leads us to the conclusion that the dollar is very undervalued against the so called "saving currencies" (e.g., Swiss franc, euro and sterling) and fairly valued or slightly undervalued against the commodity currencies of countries such as Canada, Norway, South Africa, Australia and New Zealand. And while we have deliberated on increasing our dollar weighting for the past few months, we delayed the execution of this strategy for one primary reason: The Fed. With each passing day the risk of a recession increased as the mortgage crisis seeped further into the economy and the Fed continued to administer the wrong medicine.

The macro-theme continues to evolve as we expected. However, the interplay between currencies has left something to be desired. The second half sell-off in the dollar was driven by the very large move in the yen (+9.6%) and accompanied by a meaningful appreciation in the euro, facts worth noting since we do not directly own either of these currencies in your portfolio.

When fears are high, investors flock to the Japanese yen and sell the strong growth, high real-yielding countries citing reasoning that a recession in the US will cause a global slowdown which will take down commodity prices and, as such, the commodity currencies. As the carry trade is unwound, your portfolio suffers because we have no exposure to the Yen. However, as fundamentally driven investors with an intermediate to long-term time horizon, we are reluctant to regard fund flows driven by bouts of risk aversion as an investable theme. Clearly, the Japanese economic backdrop is deteriorating. In the second quarter of 2007 the Japanese economy shrank by 1.2%, which was dismissed as a technical recession and soon followed by a dead cat bounce in the third quarter. Not satisfied that the fact that the 2006 controls on the finance industry nearly pushed the economy into a recession, Japanese policymakers have imposed a new building code that took effect in the early fall and has hit the construction industry. If this takes 1% out of the country's GDP growth, it is hard to imagine there will remain enough residual strength in other sectors of the economy to keep growth positive in the quarter. We are left scratching our heads as to why one would want to invest in a country where the political situation is deteriorating, mild deflation continues, real wages are falling, interest rates are infinitesimally small, and the population is shrinking. Further, we feel the currency strength is compounding the economic problem.

While our addition to positions in Norway and Sweden as a euro surrogate underperformed through year-end, our thesis for investment in these currencies vis-à-vis the euro has continued to meet with validation from a fundamental standpoint that we expect to be reinforced as time goes on. Last month the Norges bank raised policy rates by 25bps to 5.25%, and in the comments that followed the rate decision, policy makers remarked that "growth in the Norwegian economy has been stronger than expected." The central bank has tightened dramatically in response to the terms of trade shock that has created an economic boom and resulted in inflationary pressures. We expect that economic growth will remain strong and that the central bank will remain vigilant in its inflation-fighting campaign. Your funds are invested in the front end of the curve.

In many cases, the remaining currencies we do own seem to have taken on a life of their own, exhibiting volatile and somewhat unpredictable trading patterns relative to the dollar. Recall our thoughts from a piece penned early in the year ("This Time It's Different"), wherein we argued the point that the long-term trading ranges of the commodity currencies would be adjusted upward by 10% to 15% due to the significant positive shift in the terms of trade. The thesis proved correct, but rather than playing out over the long term, the adjustment was front end spring loaded. So while the double-digit currency returns for the year were quite acceptable, the air was let out of many of our commodity currencies at various points in the second half of the year as the yen, and to a lesser extent, the euro powered higher.

Returns Regressed to the Mean

On a relative basis, portfolios were tightly dispersed around their benchmark returns, albeit with a slight bias toward modest underperformance. Considering the extent to which our portfolio differs from the benchmark, with no investment in either yen or euro, we were generally pleased with the returns, particularly given the market volatility and the innumerable opportunities for error. We believe we captured the essence of the bear market in the dollar and participated in those high realyielding currencies offering the best total return potential.

The divergence in economic performance between the US and the rest of the world has been nothing short of breathtaking. At this point, the US is well into the reliquification phase of the business cycle wherein the consumer appetite for savings trumps his appetite for goods. The maximum pain from this process is headlined everyday in the dour news from the housing market. It represents a reorientation of priorities that is part of the healing stage occurring in every economic cycle. The Fed's recent and expected future actions are also part of the framework for the renewal phase. These actions will intersect with a slowdown in global growth, but by mid-year we believe that the US will have moved off the operating table and into the recovery room. With Europe and Japan slowing, the stage will be set for a narrowing of the growth differentials between the US and the rest of the world, which should be good news for the dollar.

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LEGG MASON

Brandywine Global Opportunities Bond Fund

Market Review

The credit crisis which initially unfolded during the third quarter continued into the fourth quarter, extending the global bond friendly environment. All but two of the major markets experienced positive returns in their local currencies with most of those positive flows concentrated into North American bond markets, as US Treasuries and Canadian government bonds were among the best performing. The UK gilt market led all the major markets as there were signs that the credit contagion effect was moving east. Polish and Malaysian bonds were the only two markets to register negative returns in local currencies. Core European bond returns were more in the middle of the pack, while Japanese government bonds were among the better performing on signs of increasing deterioration in the Japanese economy.

Call it a further unwinding of the carry trade, or continued movement toward risk aversion in the global markets, or concerns about global growth or a flight to quality in G-3, ex US, but it was an environment where the two primary funding currencies over the past several years, the Japanese yen and Swiss franc, outperformed all but the Polish zloty. The zloty benefited from a central bank raising rates to ward off building inflation pressures. The Singapore dollar and Malaysian Ringgit were the next best performing currencies, part of a broader theme of overall outperformance of Asian economies relative to North America and Europe. The currencies that underperformed during the quarter are generally more dependent upon global growth. They include the Australian dollar, Norwegian Krone, Canadian dollar and Swedish Krona. The Canadian dollar was strong into early November but ended up erasing all those gains by the end of the quarter.

Fund Review

The Brandywine Global Opportunities Fund increased by 2.29%[1] in US dollar terms over the fourth quarter. Its benchmark, the Citigroup World Government Bond Index, increased by 3.92%, and its sector, the Morningstar Fixed Income Global USD Based, rose by 2.20%.

We continued to manage the portfolio with a duration shorter than that of the benchmark. Our duration allocation to the US added value over the quarter, as US Treasuries rallied sharply on the back of the weakening economic backdrop. As valuations reached relatively expensive levels, we reduced our exposure to US Treasuries over the quarter.

Meanwhile, the portfolio's exposure to US corporate bonds (credit) detracted from performance, as the credit market struggled over the period. Similarly, the portfolio's exposure to emerging markets had a negative impact on performance, as the asset class suffered from investors' lower appetite for risk.

In terms of currencies, our large overweight position in the Polish zloty added value, as the currency was the best performer relative to the US dollar. Meanwhile, our underweight positions in the euro and the Japanese yen continued to have a negative impact on performance.

Outlook

Clearly the credit crisis which originated in the sub prime mortgage space in the US last year has developed into a full blown global credit crisis. The unknown is still what the ultimate impact will be on the US economy, the world's largest, and subsequently the global economy. We don't subscribe to the decoupling theory in earnest. We've seen deterioration in the US economic data of late and certainly the odds of a recession have increased. The credit issue, for now, appears to be on the mend aided by the central banks' new bimonthly reserve auctions. Libor rates are moving back in the right direction and spreads versus government rates are normalizing, more so in the US. The asset-backed commercial paper market also appears to be back on-line.

The task is to determine how much the US is going to slow. In reality, even if we do not enter a recession, economic growth is going to remain anaemic for several quarters (i.e. growth recession), as there is not enough pent up consumer demand to reaccelerate consumption in a meaningful way, nor a ramp up in capex spending by businesses. It should be a period that mirrors the early 1990s. It is a function of the expectations priced into the asset, credit and currency markets. In the sovereign debt markets, it is getting harder to find value. Yields appear to have some form of recession priced into them.

In the currency markets, excluding the US$, it is getting more difficult to find situations where the strength of the currency is not having a negative impact on manufacturing and export sectors of the economy. For now, the exceptions are still in the developing markets as well as Australia, New Zealand and a few select non-Japan Asian currencies.

This could easily change if the slowdown in the US economy manifests itself into a slowdown in China. China is the world's fourth largest economy and is the price setter in the commodity markets. China's growth has been structural in nature but has also been boosted by their preparations for this summer's Olympic Games. Historically, most countries experience a post Olympic hangover as growth contracts. Inflation pressures continue to build in China and are influenced mainly by surging food and fuel prices. In response, there is a significant amount of tightening already embedded in the monetary pipeline in China. There have been interest rate increases by the People's Bank of China,

[1] Source for performance figures: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares. Source for median sector performance: Copyright - © 2007, Morningstar, Inc. All Rights Reserved. For more information, visit www.funds.morningstar.com

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administered loan restrictions and a currency that is appreciating slowly but steadily (12% since the end of the peg to the US dollar in July 2005). More importantly, commercial banks' reserve requirements at the central bank have been increased sharply, all of which will slow China's growth on the margins. Add in a slowdown in the US, China's largest export market, and the surprise could be growth in China slowing from 12% to 8% in 2009. This possibly gets priced into the markets in the second half of 2008. This is a dollar positive and a commodity bearish story. Economic stability across the globe brings with it a weaker yen as the recent flights to quality flows into the yen get reversed. There is no compensation for owning the yen because of its negative carry.

Brandywine Global Investment Management

Important Information

Rolling 12 Month Performance to End of the Last Month	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Performance Inception*
Citi WGBI USD Index	10.95%	6.12%	-6.88%	10.35%	-	-	27.29%
Brandywine Global Opportunities Bond Fund	**8.85%**	**3.99%**	**-3.94%**	**11.00%**	**-**	**-**	**26.45%**

*Performance Inception Date 30.09.03

Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Western Asset Q4 2007 US Fixed Income Strategies

Key Points

- US fixed income strategies produced mixed absolute returns but mostly lagged their benchmarks over the quarter.
- Virtually all non-Treasury holdings underperformed relative to Treasuries on the back of investors' lower appetite for risk.
- Looking forward, the manager believes the Fed is likely to reduce rates further as the economic backdrop weakens in early 2008. However, growth is likely to strengthen in the latter half of the year.

Market Review

The fourth quarter was marked by continued strength in Treasuries, as government bond markets were boosted by a flight to quality and expectations of lower interest rates. Treasury inflation-protected securities (TIPS) outperformed conventional government bonds, benefiting from accelerating inflation and a decline in real yields. Meanwhile, non-Treasury bonds suffered from investors' lower appetite for risk, with spreads rising across the board. While most non-Treasury bonds (including corporate bonds and emerging market debt) still managed to generate positive returns over the quarter, the high-yield market recorded negative returns.

Problems in the subprime mortgage market continued to affect financial markets, with a number of large financial institutions announcing significant write-downs relating to mortgage-backed securities. Concerns over the impact the crisis may have on the US economy led the Federal Reserve to trim interest rates by a total of 50 basis points, leaving rates at 4.25% at year-end. Markets discounted a further 100 basis points of easing over the year ahead. (At the time of writing, the Fed had just cut rates by a further 75 basis points).

While the economic backdrop weakened over the period, soaring energy prices fuelled a renewed rise in inflation. Oil prices surged to around $100/bbl as global demand remained strong. The Fed remained mindful of continued inflationary pressures and preferred to use alternative tools to monetary easing to satisfy their responsibility as lender of last resort. As lending activity remained severely strained throughout the quarter, the Fed intervened directly in money markets with significant liquidity injections. This had some success in providing banks with necessary funding and bringing down money market rates.

Strategy*

The investment manager's US strategies produced mixed absolute returns but most funds lagged their benchmarks over the fourth quarter. The sharp widening of spreads caused virtually all non-Treasury holdings to underperform. The manager's overweighting to the mortgage-backed sector continued to suffer from wider spreads and sharply higher volatility. Similarly, its overweight exposure to lower quality corporates, with an emphasis on the auto and finance sectors, and high-yield holdings detracted from performance, as these segments of the credit market struggled in particular. Non-dollar bond holdings were also a drag on performance, as they generally underperformed their US counterparts.

Exposure to emerging market debt had mixed results. While local currency-denominated sovereign holdings added value, exposure to corporate debt within emerging markets detracted from performance.

On the positive side, the manager held a long duration position for much of the period, which benefited as interest rates fell. This position was gradually reduced towards neutral. The manager's emphasis on shorter-dated bonds was rewarded as shorter maturities outperformed longer-dated issues. In addition, its decision to hold a moderate exposure to TIPS as a hedge against rising inflation concerns added value, as the asset class outperformed conventional government bonds.

Outlook

Looking forward, the manager believes that longer term global growth fundamentals remain healthy and US growth is likely to grow at a moderate 1.5-2%. Declining home prices and weak employment conditions are likely to slow economic growth in the first half of 2008. As the drag on growth from the housing market should diminish in the latter half of the year, growth is likely to strengthen again. With inflation seeming to be reasonably contained, the Fed is likely to reduce interest rates further in early 2008 as the economy weakens. However, the manager expects the credit crisis to pass without tipping the economy into recession.

With risks to growth concentrated on the downside, the manager continues to favour a long duration position as a hedge against weaker-than-expected economic developments. In addition, the manager's overweight exposure to shorter-dated bonds should capture an outperformance

*Please note not all strategies have allocations to the sub-sectors covered in this commentary. Please see relevant factsheets for individual fund allocations.

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of shorter maturities over longer-dated issues if the Fed is forced to reduce rates more aggressively than expected. The manager also believes that some exposure to TIPS makes sense as a hedge against the possibility of rising inflation concerns.

In terms of non-Treasury holdings, the manager maintains selective exposure to lower quality corporates, as the recent widening in spreads has improved valuations and reflects a higher probability of default than it thinks is likely. The largest sector overweight remains in mortgage-backed securities. Non-dollar bonds can be good diversifiers, but many currencies have become excessively strong against the dollar. Within emerging market debt, the manager continues to prefer exposure to local currency bonds, given their higher yields and solid fundamentals.

These strategies are managed by Western Asset Management

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The strategies are representative of those employed by the US Fixed Income sub-funds within Legg Mason Global Funds plc (listed below).

Western Asset US Core Bond Fund
Western Asset US High Yield Bond Fund
Western Asset US Short - Term Government Income Fund
Western Asset US Adjustable Rate Income Fund
Western Asset Investment Grade Total Return Bond
Western Asset Inflation Management Fund

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January 2008 Ref: 3175

Legg Mason Global Funds plc

Batterymarch European Equity Fund

Market Review

European equity markets fell over the final quarter of 2007, making the second consecutive quarter of declines in the region. Behind the weakness lay downward revisions for expected global economic growth, as well as renewed fears over inflationary pressures. Regarding the former, the knock-on effects of the banking 'credit crunch,' which began in the third quarter and continued into the fourth, remained a focal point for investors. They saw the odds increasing of a recession in the US in 2008, which, as the world's largest economy, would negatively impact other regions, including Europe. On the inflation front, rising oil and food prices were the main problem areas. Despite these difficulties, however, the underlying strength of the European economy continued to be evident in several areas. Manufacturing growth recorded a surprise pick-up in growth in November compared to the previous month, for example, with manufacturing export orders improving despite the euro climbing to a record high against the US dollar.

Against this backdrop, central banks found themselves caught between their worries over slower growth and higher inflation in deciding monetary policy. The Bank of England (BofE) cut interest rates in December by 25 basis points, bringing UK rates down to 5.50%. The European Central Bank (ECB) left eurozone rates unchanged at 4.0%, although as recently as the summer it had been widely expected to continue raising rates late in 2007. The ECB's decision to hold rates reflected the more uncertain outlook faced by the eurozone economy.

In Europe's equity markets, the financials and information technology (IT) sectors were among the poorest performers in the fourth quarter, while oil & gas and utilities were among the best. The financials group was the worst performing sector for the second consecutive quarter. Among banks, investors' concerns focussed on the troubled interbank lending markets, where banks had become increasingly reluctant to lend to each other because of potential exposures to the collapsed US sub-prime mortgages market. While not as exposed as their US counterparts, many European banks announced big write-downs related to these sub-prime exposures, often experiencing sharp share price falls. Switzerland's UBS and Credit Suisse, along with UK's Barclays and Royal Bank of Scotland, were among the higher profile examples.

Elsewhere, oil & gas stocks were strong on the back of rising oil prices, while the defensive qualities of the utilities sector helped the group to outperform. In contrast, cyclical stocks, particularly anything related to the construction theme, tended to be firmly out of favour.

Fund Review

The Batterymarch European Equity Fund fell by 5.16%[1] in euro terms during the fourth quarter, compared to a decline of 3.18% in euro terms recorded by its benchmark, the MSCI Europe Index.

Stock selection was the main factor behind this underperformance, although the portfolio's sector asset allocation marginally weighed on relative performance as well. Stock selection was most detrimental in the Continental European industrials and materials sectors, with selections in the energy and the consumer groups also weighing on returns. Among industrials, cable companies were weak as investors shunned stocks with exposures to the construction industry, concerned about a downturn in that area. The Fund's holdings in French group Nexans, as well as Italy's Prysmian, were examples. Within the materials group, steel stocks also underperformed on fears of a global slowdown, with the Fund's holding in Germany's Salzgitter being weak.

On the positive side, stock selection in the utilities sector was beneficial to relative performance, as it was among Continental European telecom and information technology (IT) stocks. Among utilities, the Fund's overweight position in diversified German group E.ON was a positive influence, as were its holdings in Energias de Portugal and Red Electrica de Espana. The future investment plans of such groups reassured investors of their growth prospects, and generally, the Fund's investment manager notes, the market favoured companies that could demonstrate growth in the current environment. In the telecoms sector, Norwegian provider Telenor bounced strongly as it was able to re-consolidate its fast growing Russian subsidiary, while the Fund's holding in French operator Neuf Cegetel also performed well, helped by its strong growth and potential as a takeover candidate.

In terms of industry allocations, the Fund lost out by being overweight in the Continental European materials sector, as well as being overweight in UK IT stocks. Sentiment weighed against both sectors due to their sensitivity to slower economic growth. An overweight position in utilities and an underweight in consumer discretionary were beneficial to the Fund's relative performance, however.

Please note, the benchmark changed from the FTSE World Europe ex UK to the MSCI Europe on the 1st November, 2006.

[1] Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in euros for class A shares.

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Legg Mason Global Funds plc

Batterymarch European Equity Fund

Outlook

While markets ended the fourth quarter expecting slower global growth in 2008, opinions varied as to how much growth rates would slow. In Europe, the Fund's investment manager believes that despite slower growth, value can still be found in the region's equity markets.

Expectations are also divided on central bank monetary policy going forward. While the Bank of England is widely expected to lower UK rates in 2008, the ECB seems more likely for the time being to continue with a "wait and see" approach before implementing any changes.

This Fund is managed by Batterymarch Financial Management, Inc.

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.06 31.12.07	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	5 Years	Since Inception*
MSCI Europe Net Dividends Index (in euros)	2.69%	19.61%	26.09%	12.18%	15.26%	100.25%	80.21%
Batterymarch European Equity Fund (in euros)	**-1.35%**	**17.36%**	**24.23%**	**17.26%**	**16.32%**	**96.18%**	**68.05%**

*Inception Date: 30.08.02

Commentary and sources for figures supplied by: Batterymarch Financial Management

Please note, the benchmark changed from the FTSE World Europe ex UK to the MSCI Europe on the 1st November, 2006.
Performance figure source: Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in euros for class A shares.

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January 2008

Ref: 3154

Legg Mason Global Funds Plc

Brandywine Global Equity Fund

Market Review

Weak performance in the global equity markets continued into December. The MSCI World (net) Index was down -1.29% in dollar terms during the month. In local terms, markets were mostly negative, led downwards by Ireland (-4.86%), Switzerland (-3.64%) and Japan (-3.27%). Greece (+3.38%) and Germany (+2.08) were the best performers. The emerging markets outperformed the developed markets, with the Emerging Markets (net) Index returning 0.35% in dollar terms. The US market modestly outperformed the EAFE markets as the S&P 500 index returned -0.69% in dollar terms. In local terms, world sector performance was mixed, led by energy, telecoms and materials. The worst performing sectors were healthcare and financials.

Fund Review

The Brandywine Global Equity Fund lost 1.05%[1] in US dollar terms for December versus a dollar loss of 1.29% for its benchmark, the MSCI World (NET) Index.

Within the portfolio, sector stock selection was positive, with positive selections in financials and industrials names offset by technology and telecoms names. On a country basis, stock selection was positive, with positive stock selections in Japan and the US offset by France and the UK. Sector and country weights did not appear to have a material impact upon returns.

Outlook

The investment manager continues to see some of the rotation in the markets that it has discussed on previous occasions. Many super cycle names fell significantly during the month, along with most of the financials. The manager believes that we are nearing the end of the macro thematic move. It saw this in the ‘80s with Japan and in the ‘90s with technology, media and telecoms. This time around it has been the emerging markets driven super cycle. During these short-lived manias, risks appear to be ignored as investors chase returns. The resulting price momentum drives stocks to levels simply not supported by the fundamentals. The manager sees this happening now, with some super cycle names continuing to trade at price / book levels and margin levels not seen in about 50 years. Just as credit risk was mispriced in the credit markets earlier this year, the manager believes that earnings risk is currently mispriced in the equity markets.

The manager’s goal remains unchanged: to identify high-quality, mispriced companies it believes have a solid margin of safety and a plan for earnings growth. It is drawn to companies that possess pricing power, those with market-leading products and those that can innovate in challenging environments. Of particular interest is durable, sustainable growth – but not necessarily a defensive posture. The manager continues to maintain exposure in all sectors, but seeks to avoid overvalued companies at all costs.

This Fund is managed by Brandywine Global Investment Management
December 2007

[1] Source for performance figures - Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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Brandywine Global Equity Fund

Important Information

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MSCI World Net Dividends Index	9.04%	-	-	-	-	-	19.02%
Brandywine Global Equity Fund	**3.53%**	**-**	**-**	**-**	**-**	**-**	**12.81%**

*Launch 01.09.06.

Source for performance figures – Legg Mason, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in US dollars for A class shares.

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January 2008 3148

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